EXECUTIVE SALARIES AND BONUS PLANS

We have long since passed the stage in which stockholders, who merely invest capital and leave it wholly to management to make it fruitful, can make absolutely exclusive claim to all profits against those whose labor, skill, ability, judgment, and effort have made profits available. The reward, however, must have reasonable relation to the value of the services for which it is given and must not be, in whole or in part, a misuse or waste of corporate funds, or a gift to a favored few, or a scheme to distribute profits under a mere guise *of compensation, but in fact having no relation to services rendered. Rogers v. Hill, 289 U.S. 582, 590, 53 S. Ct. 731, 77 L.Ed. 1385, 88 A.L.R. 744; Godley v. Crandall & Godley Co., 212 N.Y. 121, 105 N.E. 818, L.R.A. 1915D, 632. To come within the rule of reason the compensation must be in proportion to the executive's ability, services and time devoted to the company, difficulties involved, responsibilities assumed, success achieved, amounts under jurisdiction, corporation earnings, profits and prosperity, increase in volume or quality of business or both, and all other relevant facts and circumstances; nor should it be unfair to stockholders in unduly diminishing dividends properly payable.*—Gallin v. National City Bank. 273 N.Y.S. 113–114. Affirmed, 281 N.Y.S. 800.

EXECUTIVE SALARIES

AND

BONUS PLANS

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PREFACE

A book on executive compensation should properly be written by a farsighted business executive, a man deeply immersed in the practical as well as emotional and philosophical problems of this subject. Centuries ago Aristotle clearly expressed the importance of such judgments by experienced individuals as follows:

> . . . for they alone, who have practical knowledge of a thing, can judge the performances rightly or understand with what means and in what way they are accomplished, and what harmonises with what. . . .[1]

Medical men as a group have established the tradition not only of practicing but also of recording and writing. Their testimony, therefore, whether verbal or written, is readily available and of public as well as professional importance. Unfortunately, however, no such traditions have been established among business leaders. They have seldom taken time to write on subjects of great business and social importance. Hence, the field has been left open to economists, superficial critics, and students in economic research. The critics of questions relating to salary payments have been exceedingly busy, as might be expected. Students of economics, however, have been slow in making effective use of available material.

I became interested in the possibilities of a detailed statistical study of executive compensation in 1934, when salary figures were first published by the Federal Trade Commission. In collaboration with Professor W. L. Crum, I made a survey of executive salaries from a sample of 100 industrial companies listed on the New York Stock Exchange. The results of this study were published in an

[1] *The Nicomachean Ethics of Aristotle*, translated by D. P. Chase, New York, E. P. Dutton & Company, Inc., p. 261.

article entitled "Compensation of Corporation Executives—The 1928–1932 Record," in the *Harvard Business Review*, Spring, 1935. The most important result, however, was not the information gained, but the appreciation of the need for careful research in this field. Since 1935 I have written additional articles and widened the scope of the survey until it led to this volume.

The need of a study of the practices and policies of executive compensation has been great, not only among business men, but also among economists. Partly because of the dearth of information in regard to executive salaries, theories relating to the whole subject of business profits and the intimately related problem of executive compensation have been considered one of the least satisfactory parts of economic theory. A number of years ago, a preliminary study of some of these problems was made on a questionnaire basis by Professor F. W. Taussig and Mr. W. S. Barker, and the findings were published in the *Quarterly Journal of Economics*, November, 1925, under the title "American Corporations and Their Executives." Most of the data used in that study were for the pre-war period, a time when the practice of executive profit sharing was far less common than it later became. Although some joint plans were tentatively considered by the Harvard Business School and the Department of Economics, looking toward the inauguration of similar studies covering a later period, the project was laid aside because of lack of financial support, and also because of the anticipated difficulty of obtaining so much confidential information from a large number of American corporations.

In 1933 the situation was changed radically by government action. Senate Resolution No. 75 of the Seventy-third Congress, First Session, directed the Federal Trade Commission to obtain data on executive salaries from each of the companies listed on the New York Stock Exchange and the New York Curb Exchange for each

year during the period from 1928 to 1932 inclusive;[1] and in February, 1934, the early findings of the Federal Trade Commission were made public. Since that time, there has been a fairly steady stream of information on corporate salaries emanating first from the Federal Trade Commission and later from the Securities and Exchange Commission.

This book is based primarily on statistical data made available by the two commissions and from annual corporation reports. The average reader will probably not welcome the frequent and detailed use of statistics. It is not necessary, however, to peruse every exhibit in order to understand the point of view of the book or the conclusions, since summaries are numerous. With the exception of Chapter I, each chapter is intended to stand alone, so that a reader may find the subject of particular interest to him in a single section.

One reason for a preface in any book is to state the purpose of the book. Studies of executive compensation were undertaken to obtain data on the practices and policies followed by corporations in paying their executive officers. The chief purpose of this book is to reveal the data gathered from these studies rather than to develop a theory or a philosophy about executive payments. Only the last chapter is devoted to the question of whether or not executives are paid too little or too much, or to judging critically corporate policies.

The following studies serve merely as an introduction to a far-reaching and involved subject. It was a pioneering task, and as such most fascinating. New theories, new facts, and new ideas doubtless will develop rapidly in the near future, since this subject is now being carefully examined by many individuals from a practical as well as a theoretical point of view. Additional studies may lead to many changes and emendations in this work. I hope,

[1] The rate of salary as of September 1, 1933, also was requested; the 1933 information, however, was not comparable with that for the preceding years.

however, that it may be helpful in stimulating sound thinking and development in the field of executive compensation.

The scope of the book is fragmentary in the sense that the entire field of corporate executive payments by industry has not been covered. One of the early results of the studies was a clear indication that the size of the company, as well as the industry, affected compensation practices and policies. In this volume, however, only large companies and those of average size are examined; the practices and policies of small companies remain to be analyzed. In like manner, the executive compensation policies of only a few industries have been studied.

Corporate names are used frequently, but the names of executive officers are omitted at all times. Every attempt has been made to avoid statistical errors, but because of the wide use of figures doubtless some have occurred. Also it should be pointed out that the studies are only as accurate as the source material on which they are based. This is exact only within limits, since it was submitted by a large number of corporations to the Federal Trade Commission and Securities and Exchange Commission. The limitations on these data are the possibility of variations in interpretation of the commissions' requests by the individual companies and in the accuracy with which the data were reported. In specific companies, obvious misunderstandings occurred; where this was evident, the data were omitted. The effect of such errors on the studies, however, would not be great because of the statistical methods followed.

I am indebted to the *Harvard Business Review* and the Bureau of Business Research of the Graduate School of Business Administration of Harvard University for permission to reprint in part a series of articles and studies previously published.

The labor of preparing and analyzing the mass of figures was exceedingly great, an almost impossible task for a single individual, as will be clear to anyone conversant with

statistical studies of this character. A number of persons therefore worked on the various studies from time to time, and to them, who made this book possible, I am deeply grateful. Special thanks are due Miss Elizabeth Burnham, Miss Esther Love, Mr. Andrew Towl, Mr. Peter Cogan, Mr. Robert Steele, and Miss Marion White.

Also I am appreciative of the cooperation and courteous help of the members and certain employees of both the Federal Trade Commission and the Securities and Exchange Commission. Finally I must acknowledge the assistance of many of my colleagues and numerous business men, with whom I discussed frequently the involved problems in the field of executive compensation and from whom I received ideas and constructive criticism.

John Calhoun Baker.

Soldiers Field,
Boston, Mass.,
May, 1938.

CONTENTS

LIST OF EXHIBITS

EXECUTIVE SALARIES AND BONUS PLANS

CHAPTER I

STUDIES IN EXECUTIVE COMPENSATION AN UNEXPLORED FIELD

Executive salaries and compensation have been of rapidly deepening interest ever since the publicly owned corporations became predominant in the business world. The reasons for this are obvious: corporations during the last 50 years have been steadily growing in size and power and, *pari passu*, the question of payments to executive officers has followed. Only since the Federal Trade Commission, the Securities and Exchange Commission, and the Revenue Act of 1936 made executive payments and similar data public has it been possible to examine the important problems pertaining to corporate salaries and payment plans. Prior to 1934 compensation practices and policies were shrouded in mystery and considered too confidential to be discussed even at annual meetings of stockholders who were legal owners. Previous to the disclosures by the commissions, most of the general information on this subject was gathered from court records and from tax returns filed under the Federal corporation income tax law, none of which was sufficiently detailed or specific for precise interpretation.

Early recognition of the problems involved in the payment of management is indicated by the many discussions of profit sharing plans which flourished from the 1870's to the World War. During much of this period there was a general feeling among those who wrote on this subject that management, as distinct from ownership, was not ade-

quately recognized or paid, and this conclusion probably was true at that time.[1] As companies grew in size, however, and ownership became widely scattered, management developed into a distinct and influential group, assuming a position of power so quickly and so unobtrusively that for a period of years its influence resulting from its position was underestimated. Even today it is not widely recognized that management to a large extent is in corporate control. The assumption that the owners of common or voting stock control a company is for the most part a fiction so far as the large corporations listed on exchanges are concerned.

No attempt was made in any of the studies leading to this book to relate it or any part of it to economic theory or doctrine. The purpose has been to prepare a factual treatise for the use of directors and other corporate officers to aid in solving the many involved problems pertaining to the payment of executives, and for the use of economists desirous of examining practices and policies in this area as a basis for developing theory.

Another group interested in the problems arising in the field of corporate salaries and bonus payments are lawyers. Frequently questions relating to executive compensation have found their way into the courts. For years, therefore, the courts have been called upon to decide what is reasonable and what unreasonable executive compensation.[2] The quotation which serves as an introduction to this volume summarizes judicial thinking on this subject and indicates the vagueness surrounding the entire question from the legal point of view. The so-called "rule of reason," which states that an executive's compensation "must be in proportion to the executive's ability, services and time devoted to the company, difficulties involved, responsibilities assumed,

[1] Taussig, F. W., and Barker, W. S., "American Corporations and Their Executives," *Quarterly Journal of Economics*, November, 1925; Burritt, A. W., Dennison, H. S., Gay, E. F., Heilman, R. E., Kendall, H. P., *Profit Sharing—Its Principles and Practice*, New York, Harper & Brothers, 1918.

[2] In making these studies, the writer discovered over 70 important court cases without in any way attempting to prepare a complete list.

success achieved, . . . " merely outlines in judicial terms that many phases of corporate and personal activity must be considered in fixing fair executive compensation. One reason for such vagueness was the lack of any "yardstick" or detailed factual information on corporate payments to executives for courts to follow. Current practices were unknown.

The disclosure of corporate salaries by the Federal Trade Commission in 1934 and the subsequent disclosure of both salaries and executive payment policies by the Securities and Exchange Commission make available for the first time sufficient material for a study of the entire field of executive payments. Such questions as the following are among those examined in this book.

How much are executives paid and how do these payments vary among companies and industries? Does executive compensation fluctuate with sales and earnings? Does the distribution of stock ownership affect executive compensation and earnings? Should data on payments to executives be published? Can current payments to executives be justified?

To summarize, this disclosure of compensation data, properly analyzed, should not only reveal answers to the above questions but also should (*a*) cast light on the theory of profits, (*b*) permit an examination of the practices followed by corporations in paying executives, (*c*) allow an appraisal of the fairness of such policies, and (*d*) furnish information of importance to the courts and other public bodies.

Executive Compensation Payments

The concept of the management group in past years has frequently been either oversimplified or misunderstood because it includes both major and minor executives. The senior executive officers of a corporation, those who plan and study operations from a long-run viewpoint, have responsibilities and functions which differ greatly from those

of the minor executives, who administer plans on a daily or monthly basis. It is the compensation of the former group of executives, those senior officers in final responsibility, that is emphasized in this study. Because of their position, they dominate corporate policy and are deeply interested in the division of profits.

The major part of this book deals with the statistics pertaining to executive compensation payments. Frequent use is made of terms with flexible meanings such as "executives," "executive compensation," and "earnings." It is essential, therefore, from the start to define these terms and have them clearly understood; otherwise accurate statistical studies cannot be made. It is not the aim of the author in defining them, however, to lose himself in desultory questions concerning the limitations of and reasons for the definitions. Some definition of terms was necessary, and the simplest and most practical ones are used. Misunderstanding of the significance of such a simple phrase as "the executive group" might destroy completely the effectiveness of these studies. The writer cannot forget discussing the definition of this term with an experienced and skillful executive, who said that he had employed two trained men to decide who did and who did not belong in the executive group in his own plant. After spending an entire summer working on the problem, the men reported that every one of the 6,000 employees in the plant performed some executive function, and that they were unwilling to state just where the line should be drawn between executives and employees. This experience suggests the need for a clear understanding of what officers are considered executives in any analysis of executive compensation.

The Executive Group

Who constitute the executive group? No one narrow definition applicable to all companies exists and the number of men included in this group by individual companies varies widely. In the following studies, the executive group

includes only the executive or senior officers. Some amplification of this statement is necessary. The scope of the work assigned to an executive in one company may not correspond closely to the activities for which a similarly named officer in another company is responsible. Functions and duties naturally vary somewhat with the aptitude of the man and of his associates. Size, character, and organization of a business may influence the number of men classified as executives. Again, for very good reasons, in one company there may be more men so classed than in another firm of like size and type. In each company, nevertheless, will be found a group of men classified as the "executive officers," and it is the compensation of this group only that has been examined.

Since the compensation data for the first five years covered by this study, 1928–1932, have been secured by the Federal Trade Commission from reports of individual companies, the character of the commission's request and the nature of the material made available by the company should be clearly understood.

The commission requested companies to submit information concerning "salaries, and all compensation, direct and indirect, including that from subsidiary and affiliated companies, paid to executive officers and directors for each year 1928–1932, inclusive, and also the rate of salary as of September 1, 1933."[1]

This request, with the exception of the information about directors, suggests that if properly answered it will supply the statistics needed for a study of executive compensations, as well as the definition of the term "executive." A survey of the reports filed under the request indicates that the compensation figures submitted to the Federal Trade Commission were for the senior or "top" men ordinarily described as officers, as well as directors. This group of

[1] Federal Trade Commission, *Report of the Federal Trade Commission on Compensation of Officers and Directors of Certain Corporations*, Washington (mimeographed), 1934, p. 4.

men, therefore, those who devise and direct general corporation policies, was accepted by the author in his definition of the term "executive officers." A characteristic list of executive positions includes the following: chairman of the board of directors, president, vice president, treasurer, controller, general manager, frequently sales manager; in department stores, store managers; and certain directors. With the definition of executive officers clearly in mind, the reader is not misled by the scope of the figures, which throw much light on an important and highly controversial problem.

Data for the years 1934, 1935, and 1936 from the Securities and Exchange Commission cover a similar, frequently slightly larger group of executives. In many instances, adjustment of the figures available for those years was necessary in order to establish a series of comparable data for the entire period under review.[1] Both commissions, however, asked for and received data covering the executive officers of the various corporations.

One criticism of this definition of the executive group is that a large corporation with many subsidiaries probably does not reveal payments to the officers of its subsidiaries and therefore understates total payments to *all* officers. This fact should be borne in mind in comparing percentages of total dollar payments of large corporations with those of smaller corporations, or in comparing figures for a company having many subsidiaries with those for a company having only a few subsidiaries. The criticism, however, does not necessarily lessen the significance of the figures indicating the total amounts paid simply to the *executive officers, i.e.*, the guiding and directing group of any corporation; nor does it affect comparisons among companies with a somewhat similar number of subsidiaries. No attempt is made to stretch the definition or the studies to cover all those individuals who might conceivably be considered executives.

[1] See Appendix A, p. 257.

Executive Compensation

The term "executive compensation," as used in these studies, is applied to the total dollar payments made to executive officers. For each executive this compensation figure includes regular salary, that is, the specified amount paid in cash each year, if any; additional cash payments, whether or not the company had a formal bonus plan; and any directors' fees or other additional remuneration.[1] It does not include other types of payments, such as warrants or options to purchase stock, frequently offered by both the industrial and the retail companies studied, since in many cases it was impossible to discover what action officers took in regard to them. Many of the warrants or options which appeared to be valuable in 1929 became worthless during the depression; on the other hand, some of those appearing worthless in 1932 and even in 1934 were by 1936 exceedingly valuable.

When the word "salary" is used in the following chapters *without qualification*, it refers to the regular contract or otherwise understood dollar payments and does not include any bonus or additional compensation in any other form.

Earnings

The term "corporate earnings," of basic significance in the statistical studies leading to this book, may have numerous meanings; indeed, it may readily be adjusted to almost any use or purpose. It is of great importance to define this term so that it may be used in an adequate, readily understood, and appropriate manner. For the purposes of these studies the term "earnings" is defined as net income after all charges, including Federal taxes, depreciation[2] and

[1] "For the purpose of this resolution, the term 'salary' includes any compensation, fee, bonus, commission, or other payment, direct or indirect, in money or otherwise, for personal services." Senate Resolution No. 75, 73rd Congress, 1st Session, 1933–1934.

[2] The decision to consider earnings after, rather than before, depreciation rested on the interrelationship of maintenance expense and depreciation

obsolescence, but *before executive compensation and interest.*[1] There are two reasons for using an earnings figure before executive compensation: first, the remuneration of officers could be related to their achievements as measured by company income before executive payments, the element being studied; and second, and of real significance, a basis could be established for comparison of the share of profit or net income going to executives and to stockholders respectively.

The exclusion of interest[2] from expense in arriving at earnings was prompted by the need for comparison among companies. Some corporations operate on substantial amounts of borrowed capital for which interest must be paid, while others operate almost entirely on owned capital, against which no interest charges are recorded in published statements.

Executive compensation and interest are therefore added to the net income statement in annual reports, thereby greatly enlarging the generally accepted earnings figure of the various corporations. It is recognized that such a definition of the term "earnings" varies from the generally accepted item of net income or net gain from which dividends are paid. The application of the definition to the figures of the United States Steel Corporation in 1936, presented below, may serve to clarify the use of the term and at the same time emphasize the substantial difference in certain companies between earnings as interpreted above and published earnings figures generally termed "net income."

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charges. Differing policies among the concerns studied suggested that earnings figures for the various firms would be more nearly comparable if depreciation as well as maintenance was included as expense.

[1] The slight variations which occasionally occur in the use of this definition are clearly noted.

[2] Including interest on bonds, mortgages, and other long-term debts; and, in some instances perhaps, other interest paid. Where companies incurred expense for minority interest or dividends on preferred stock of subsidiary companies, such expense has been considered as interest.

United States Steel Corporation, 1936

Balance available for dividends		$50,583,356
Plus: Interest charges	$4,947,958	
Total executive compensation	861,339	
Earnings as herein defined		$56,392,653

Scope of the Book

The various statistical studies leading to this book were planned to reveal corporate practices in paying executives for companies of different sizes and in different industries over a period of years. Some of the studies have been previously published; others have not. In this opening chapter, the problems to be discussed have been summarized briefly, and the terms to be used have been defined. Chapters II and III are studies of a sample of industrial companies from 1928 to 1932, the second chapter describing aggregate payments by the group and comparing these payments with other available information, and the third chapter covering the practices of individual companies and revealing the relationship between executive compensation and earnings. Both of these studies are limited to the period of decline from 1929 to 1932, in order to stress payments to executives and to indicate the share of earnings going to executives during such a period. The next six chapters deal with executive compensation practices and policies for companies of differing size and in various industrial groups from 1928 to 1936, permitting an examination of executive payments from a period of good business through a recession to a period of business recovery. The concluding chapter is a general consideration of what the data signify in a business way.

CHAPTER II

THE 1928–1932 RECORD OF EXECUTIVE COMPENSATION[1]

What happens to executive compensation over a period of good and bad business years? This question has frequently arisen, and an analysis of a sample of 100 industrial companies over the five-year period 1928–1932, the results of which appear in this and the following chapter, was made to answer it. It should be remembered that the period examined was one of business recession, and also that it preceded the establishment of the Securities and Exchange Commission, which requires the revelation of detailed corporate salary information.

Selection of Companies

The companies on which the analysis is based were chosen by making a random selection of 100 from the 450 industrial companies listed on the New York Stock Exchange, in order to minimize the danger of introducing bias by including only prominent companies. Complete data, however, for the entire period were not available for every company so chosen. Hence 21 of the original companies had to be excluded, and others substituted in order to bring the sample up to 100. (See pages 12–13 for list of companies.) These 21 companies were selected arbitrarily rather than at random, in order to include in the sample as broad an industrial distribution of companies as possible, as indicated in Exhibit 1. The method employed does not warrant the application of the more elaborate concepts of

[1] Chapter II, in slightly different form, appeared originally as an article in the *Harvard Business Review*, Spring, 1935, entitled, "Compensation of Corporation Executives—The 1928–1932 Record," written in collaboration with W. L. Crum.

the statistical theory of random sampling. Even the complete list of 450 industrial companies on the Exchange would scarcely be representative of all corporations in the industrial field. The companies included in the sample are invariably large, since the Senate Resolution[1] requesting

EXHIBIT 1.—DISTRIBUTION OF 100 INDUSTRIAL COMPANIES ACCORDING TO INDUSTRIES[1]

	No. of Companies
Manufacturing:	
1. Food and kindred products	18
2. Textiles and their products	9
3. Forest products	0
4. Paper and paper products	2
5. Printing, publishing, and allies	0
6. Chemicals and allied products	12
7. Products of petroleum and coal	5
8. Rubber products	5
9. Leather and its manufactures	1
10. Stone, clay, and glass products	5
11. Iron and steel products (excluding machinery)	15
12. Non-ferrous metals and their products	1
13. Machinery not including transportation equipment	6
14. Transportation equipment	12
15. Miscellaneous industries	7
Construction	1
Service (business service)	1
Total	100

[1] Classified according to subdivisions of the Federal Trade Commission.

NOTE: Otis Elevator Company was included under Construction; International Business Machines Corporation, under Service. The miscellaneous group included one detinning firm and manufacturers of tools, watches and radios.

the data used for this analysis required it only from companies with assets of $1,000,000 or over. The great volume of business carried on by smaller concerns is not represented. The fact that the sample is made up almost entirely of manufacturing companies is also an important limitation to be kept in mind.

[1] "*Resolved* that the Federal Trade Commission is requested to prepare and transmit to the Senate, as soon as practicable, a report showing the salary schedule of the executive officers and directors of each corporation engaged in interstate commerce (other than public-utility corporations) having capital and/or assets of more than a million dollars in value, whose securities are listed on the New York Stock Exchange or the New York Curb Exchange." Senate Resolution No. 75, 73rd Congress, 1st Session, 1933-1934.

LIST OF 100 INDUSTRIAL COMPANIES

Air Reduction Company, Incorporated*
Allegheny Steel Company
Allis-Chalmers Manufacturing Company
American Brake Shoe and Foundry Company
American Encaustic Tiling Co., Ltd.
American-LaFrance & Foamite Corp.
American Locomotive Company*
American Smelting and Refining Company*
American Steel Foundries
American Tobacco Company (The)*
American Woolen Company
Archer-Daniels-Midland Company
Atlantic Refining Company (The)
Austin, Nichols & Co., Inc.
Baldwin Locomotive Works (The)*
Bayuk Cigars Incorporated
Bethlehem Steel Corporation
Borden Company (The)
Brown Shoe Company, Inc.
Bulova Watch Co., Inc.
A. M. Byers Company
Cannon Mills Company
J. I. Case Company*
Century Ribbon Mills, Inc.
Chicago Pneumatic Tool Company
Chickasha Cotton Oil Co.
Clark Equipment Co.
Colgate-Palmolive-Peet Company*
Colorado Fuel & Iron Corporation
Commercial Solvents Corporation
Corn Products Refining Company*
Crosley Radio Corp.
Deere & Company*
Devoe & Raynolds Company, Inc.
E. I. du Pont de Nemours & Company
Eureka Vacuum Cleaner Co., Inc.
Federal Motor Truck Co.
Firestone Tire & Rubber Company (The)
Gabriel Company (The)
General Baking Company*
General Foods Corporation
General Railway Signal Company
Adolf Gobel, Inc.
B. F. Goodrich Company (The)*
Granite City Steel Co.
Grigsby-Grunow Co.
Harbison-Walker Refractories Company
Hercules Motors Corp.
Hudson Motor Car Company
Inland Steel Company
International Business Machines Corporation
International Cement Corporation*
International Harvester Company*
International Paper and Power Company
Intertype Corporation
Julius Kayser & Company
Kimberly-Clark Corporation
Lambert Company (The)*
Lee Rubber & Tire Corp.
Liggett & Myers Tobacco Company
Loose-Wiles Biscuit Company
Mack Trucks, Inc.
Manhattan Shirt Co.
Mathieson Alkali Works, Inc. (The)
Mid-Continent Petroleum Corporation
Mohawk Carpet Mills, Inc.
Nash Motors Company (The)
National Distillers Products Corporation
Norwalk Tire & Rubber Co. (The)
Otis Elevator Company
Packard Motor Car Company
Pet Milk Company
Phillips-Jones Corporation
Pillsbury Flour Mills Company
Pittsburgh Steel Company
Radio Corporation of America*
Real Silk Hosiery Mills, Inc.
Reynolds Metals Co.

* Company arbitrarily selected.

LIST OF 100 INDUSTRIAL COMPANIES.—(*Continued*)

Snider Packing Corp.
A. G. Spalding & Bros.
Standard Brands Incorporated
Standard Oil Company of California*
Standard Oil Company (New Jersey)*
L. S. Starrett Co.
Superior Steel Corp.
Thatcher Manufacturing Co.
Tide Water Associated Oil Company
Trico Products Corp.
United Dyewood Corp.
United Fruit Company*
United States Gypsum Company
United States Rubber Company
United States Steel Corporation*
Vulcan Detinning Co.
Ward Baking Corporation
Western Dairy Products, Inc.
Westinghouse Electric & Manufacturing Company*
Weston Electrical Instrument Corp.
L. A. Young Spring & Wire Corp.
Youngstown Sheet and Tube Company (The)*

* Company arbitrarily selected.

In analyzing the executive compensation payments of individual companies, no attempt was made to bring out startling information about the compensation of particular executives who may be in the public eye. The purpose was rather to answer certain general questions, and the following analysis is directed mainly toward the presentation and comparison of summary or aggregate figures derived from the entire sample. Among the questions are the following: What was the course of executive employment from 1928 to 1933? What effect had the depression on aggregate salary and bonus payments? How did variations in executive compensation compare with those in wages, dividends, interest payments, and net earnings?

Trend of Executive Employment

A question of outstanding importance in the early part of this study is the course of executive employment from 1928 to 1933. Reductions in sales and profits, curtailment in activity, and merging of departments might be expected to result in a decrease in the number of executives after 1929. On the other hand, continuance of the expansion and the development of the boom in 1929 might be expected to result in some increase in the number from 1928 to 1929. From the record for the sample of 100 industrial companies in Exhibit 2, it appears that executive employment did

indeed advance five points in these two years, but changes during the early years of the depression were inappreciable, and there was only a two point decline in 1932.

EXHIBIT 2.—FLUCTUATION IN EXECUTIVE EMPLOYMENT IN 100 INDUSTRIAL COMPANIES AND IN EMPLOYMENT OF WAGE EARNERS IN FACTORIES: 1928–1932

Year	100 industrial companies		Industrial index of employment, wage earners[1]
	No. of executives	Relatives (1929 = 100)	
1928	941	94	94
1929	996	100	100
1930	995	100	88
1931	1,008	101	73
1932	986	99	61

[1] Source: *Federal Reserve Bulletin*, Washington, Board of Governors of the Federal Reserve System, 1935, Vol. 21, No. 1, p. 28. The index numbers as originally presented were prepared by the Bureau of Labor Statistics with the base, 1923–1925 = 100. For purposes of comparison these figures have been converted to the base, 1929 = 100.

Although it is clearly unfair to compare the record of employment for executives in the companies in the sample with that of industrial workers in general, it is surprising to note that the number of executives increased from 1928 to 1929 at almost the same rate as industrial employment in general; but executive employment showed almost no decline during the period from 1929 to 1932, when general industrial employment slumped over one-third, as indicated in the last column of Exhibit 2. No doubt data including minor as well as major executives of these companies would show a greater decline in the number employed from 1929 to 1932, and possibly even figures for the major executives of the group of small companies not included in the sample would show a substantial decline. And yet in either of these cases the actual decline in executive employment would certainly appear less severe than the 39% drop which occurred in general employment of industrial workers. Actually for the executive officers of the large companies covered in the sample, the decline was negligible, amounting

to only about 1%. The reason for this stability is probably the need of retaining such men in key positions if a company is to continue in existence. Since it appears that the depression brought no considerable reduction in the number of such executives employed by these companies, it is natural to inquire next whether the adverse consequences of the depression appear in the form of reductions in executive compensation.

Prevalence of the Bonus

Before any satisfactory analysis can be made of the course of executive compensation, it is necessary to examine the extent to which bonus payments are used.[1] As shown in Exhibit 6 (page 20), to be discussed in detail later, the changes which occurred in total executive compensation were due mainly to the changes in the amounts paid as bonuses; straight salaries declined little over the entire period and even advanced during the first year of the depression.

This study makes no pretense of answering the difficult questions concerning the selection of a satisfactory method of paying executives, but the aggregate data examined show certain striking facts about the way these companies attempted to solve the problem, which it seems advisable to emphasize at this point. The payment of straight salary does not presuppose any attempt to measure the connection between the reward and the performance of a particular executive. The salary with bonus method, on the other hand, does suggest a partial adjustment of executive payments to current corporate income. The functioning of these two methods over the 1928–1932 period is most interesting.

The question whether or not a large number of industrial companies paid their executives bonuses or other compensation in addition to salaries has been discussed frequently. The questionnaires sent out by Professor

[1] For a detailed discussion of bonus plans, see Chap. IX.

F. W. Taussig and Mr. W. S. Barker covering the 1904–1913 period specifically asked, "Have any of the chief executives a further interest or incentive through extra payments by percentage or otherwise conditioned on earnings?" From the answers received, the authors concluded:

It appears that a very small number of our respondents made use of any such method even on special occasions, while a still smaller number had any systematic arrangement for extra compensation. . . . No more than 5 per cent of all appeared to have a regular method for extra compensation. . . . [1]

Contrast this figure with those in Exhibit 3 of the present study. In 1928, 64 of the 100 companies examined, or 64%, used a salary with bonus method of paying executives. In the same year, 442 out of a total of 941 executives, or 47%, received salary with some bonus, as indicated in Exhibit 4. In 1929 the proportion of executives receiving salary with bonus rose to 51%, while the proportion of companies paying salaries and bonuses declined slightly to 62%. The number of companies paying salaries with

EXHIBIT 3.—FLUCTUATION IN NUMBER OF COMPANIES PAYING SALARY ONLY AND PAYING SALARY WITH BONUS; 100 INDUSTRIAL COMPANIES: 1928–1932

Year	Industrial companies			
	No. paying salary only		No. paying salary with bonus	
	Actual	Relatives (1929 = 100)	Actual	Relatives (1929 = 100)
1928	36	95	64	103
1929	38	100	62	100
1930	44	116	56	90
1931	58	153	42	68
1932	74	195	26	42

bonuses declined approximately 10% from 1929 to 1930, and the actual number of executives receiving salaries and

[1] Taussig and Barker, *op. cit.*, pp. 28, 29. It should be noted that this study included many small companies.

bonuses declined about 7%. Thereafter the decline was precipitous until 1932, when only 26 of the companies paid salaries and bonuses and only 10% of the total number of executives received bonuses. According to these figures, the peak of the movement favoring payment of additional or bonus compensation to executives for the period studied occurred in the years 1928–1929.

EXHIBIT 4.—FLUCTUATION IN TOTAL NUMBER OF EXECUTIVES AND IN NUMBER RECEIVING SALARY WITH BONUS; 100 INDUSTRIAL COMPANIES: 1928–1932

Year	Industrial executives				
	Total no.		No. receiving salary with bonus		
	Actual	Relatives (1929 = 100)	Actual	Relatives (1929 = 100)	% of total number
1928	941	94	442	88	47
1929	996	100	503	100	51
1930	995	100	467	93	47
1931	1,008	101	300	60	30
1932	986	99	95	19	10

Interpreting straight salary and salary with bonus payments in terms of relatives to 1929, as shown in Exhibits 3 and 4, the relative number of companies using a salary with bonus method of payment declined from 100 in 1929 to 42 in 1932, and the relative number of executives receiving such payments, from 100 in 1929 to 19 in 1932. Both exhibits indicate clearly the widespread use of the bonus as well as the highly flexible nature of bonus payments.

In examining these exhibits, it must be borne in mind that some of the bonus contracts were in terms rendering it possible for the bonus portion of the total compensation to exceed the salary portion. In view of this consideration, it is fair to conclude that the bonus remained, even after the striking curtailment in its use during the depression, a very important element in executive compensation.

EXHIBIT 5.—NUMBER OF EXECUTIVES PER COMPANY AND FLUCTUATION IN EXECUTIVE COMPENSATION CLASSIFIED ACCORDING TO TYPE OF PAYMENT FOR THREE INDUSTRIAL COMPANIES: 1928–1932

Year	Bethlehem Steel Corporation				Standard Oil Company (New Jersey)				Standard Oil Company of California			
	No. of executives[1]	Relatives (1929 = 100)			No. of executives[1]	Relatives (1929 = 100)			No. of executives[1]	Relatives (1929 = 100)		
		Salary payments	Bonus payments	Total compensation payments		Salary payments	Bonus payments	Total compensation payments		Salary payments	Bonus payments	Total compensation payments
1928	27	99	53	58	19	98	1	58	11	90	None	90
1929	24	100	100	100	20	100	100	100	11	100	None	100
1930	25	129	59	65	21	108	103	106	11	116	None	116
1931	24	232	11	31	21	108	34	77	12	109	None	109
1932	23	300	1	27	19	96	0†	56	12	109	None	109

† Actually 0.04.

[1] Directors who received cash salaries are included.

The decline in bonus payments made by certain individual companies during the five-year period, as contrasted with the fluctuation in payment of salaries, is indicated in Exhibit 5, giving the compensation figures for the period for the Bethlehem Steel Corporation, which paid large bonuses, the Standard Oil Company (New Jersey) which paid moderate bonuses, and the Standard Oil Company of California which paid no bonuses whatever. The increase in salary payments of the Bethlehem Steel Corporation indicates a change from the extremely large bonuses which were paid before 1930 and which practically disappeared by 1932. This is also true, to a lesser degree, for the Standard Oil Company (New Jersey). As a result, total compensation of both companies declined precipitously by 1932, to 27% of the 1929 figure for the Bethlehem Steel Corporation and 56% for the Standard Oil Company (New Jersey).

Aggregate Executive Compensation

In Exhibit 6 appear various summary data reflecting the course of executive compensation from 1928 to 1932. The data in the first four columns pertain to the 100 companies making up the sample. The figures showing aggregate executive compensation give an impression of pronounced fluctuation. There was an important rise from 1928 to 1929; and, although the reduction in 1930 was not large, sharp declines occurred in 1931 and 1932. But it is in the bonus payments that the really violent fluctuations took place, as shown by the remarkable range in such payments from nearly $18,000,000 in 1929 to just over $3,000,000 in 1932. A large part of this decline resulted from the automatic operation of the bonus contracts, which made the amount of the bonus contingent upon the net earnings or some other corporate performance. A further part of the decline may undoubtedly have been due to the abandonment of the bonus method by certain companies. The essential point is that the bonus is the flexible element in the compensation of officers.

EXHIBIT 6.—AGGREGATE DOLLAR EXECUTIVE COMPENSATION CLASSIFIED ACCORDING TO TYPE OF PAYMENT; 100 INDUSTRIAL COMPANIES AND ALL MANUFACTURING COMPANIES FILING FEDERAL TAX RETURNS: 1928–1932

Year	100 industrial companies						Manufacturing companies filing Federal tax returns[1]			
	All executives				Presidents only		No. of corporations	All executives		
	Salaries	Bonuses	Total compensation		Total compensation			Total compensation		
	Aggregate amount (unit = $1,000)	Aggregate amount (unit = $1,000)	Aggregate amount (unit = $1,000)	Relatives (1929 = 100)	Aggregate amount (unit = $1,000)	Relatives (1929 = 100)		Aggregate amount (unit = $1,000)	Average amount per 100 firms (unit = $1,000)	Relatives (1929 = 100)
1928	$22,650	$13,313	$35,963	85	$ 9,111	83	95,777	$1,107,714	$1,157	95
1929	24,495	17,815	42,310	100	10,984	100	96,525	1,171,888	1,214	100
1930	25,837	14,639	40,476	96	9,889	90	95,098	1,095,929	1,152	95
1931	24,598	7,325	31,923	75	7,500	68	93,109	935,348	1,005	83
1932	22,102	3,124	25,225	60	6,138	56	91,849	734,148	799	66

[1] Compiled from the United States Treasury Reports, based on corporate income tax returns.

Further evidence of the flexibility of compensation because of bonus plans is found in the record of aggregate executive salary payments. The increase in such payments from 1928 to 1929 was very moderate, compared with that of bonus payments, and was followed by a further small but conspicuous increase in 1930, although the volume of business and profits as well as bonus payments had already begun to decline. Successive reductions in 1931 and 1932 left the total salary payments only slightly below the 1928 level, about 2.5%. Again, some allowance must be made for the tendency observed above for a larger number of companies to use the salary method exclusively in 1932 than in 1928, but this can scarcely account for the striking maintenance of salary payment levels in the depths of the depression. We are forced to conclude that salaries of executives are highly inflexible, to the point of being almost a fixed charge upon the company. Furthermore, doubtless an important human element was involved; directors prob-

ably disliked to reduce the salary portion of compensation when the bonus was rapidly disappearing.

The other part of Exhibit 6 gives, for comparison with the data of the sample, a much more general tabulation of aggregate compensation of officers of all manufacturing corporations filing tax returns.[1] The figures pertain to corporations included by the United States Treasury in the manufacturing division of industry, and thus are comparable with those of the sample. It must be remembered, however, that the Treasury statistics cover, so far as possible, "all corporations" in the field of manufacture; the figures are not, therefore, limited to large enterprises, as are those for the sample. In order to indicate the extent of the coverage of these data, the number of corporations making up the manufacturing division is included for each year.

The direction of change in the aggregate compensation of officers of all manufacturing companies is the same in each year as that found in the sample of 100 companies. But the rate of change is much slower for all corporations, the movements being decidedly more sluggish than for the smaller group. There are several possible explanations of this difference. The tax-return data apply to a much broader list of corporations, and among many of these the bonus system, which accounted for a large part of the reduction in compensation for the group of 100 companies, may not have been in use. It is probable also that the tax-return statistics include many more executives in addition to the major officials included for the smaller group of companies, and changes in the compensation of the subordinate officers may have been less drastic than changes in compensation of chief executives. It is quite possible, however, that mergers of departments may have eliminated many minor executives; certainly unemployment among "white-collar" workers was marked. A further explana-

[1] The figures were compiled from the United States Treasury Reports based on corporate income tax returns.

tion of the difference may lie in the fact that, particularly among smaller concerns covered by the tax statistics, an important element may have been net earnings paid out as salaries to individuals who were in control of closely held corporations. Hence such payments, being for the most part in the nature of small salaries, may have been changed less than salaries of officers in large concerns.

Although Exhibit 6 shows that total compensation of officers of the 100 sample companies declined in 1930, it should be noted that salaries rose moderately. It is natural to wonder whether any considerable number of individual officers had increases in salary during the first year of the depression. The fact is that such increases were numerous, and they continued even as the depression became more severe. In 1931 aggregate salary payments were raised by 25 of the 100 companies, and in 1932 by 18. These increases may have been due in part to increases in the number of executives employed by the particular companies, or to increases in the number of highly paid executives as compared with the number receiving low salaries; but as observed above, the number of executives employed changed only gradually during the depression. It is safe to conclude, therefore, that part of the increase in salary payments was due to increase in the rate of salary of certain officers. In some cases this may have been to offset drastic reductions in total compensation because of the decline in bonus payments.

A comparison of the aggregate compensation of the presidents of the 100 companies with that of all executives indicates that the fluctuation in these two items is very similar. Exhibit 6 shows that in 1932 all executives received 60% of the amount paid them in 1929, and presidents received 56%.

Although open to criticism as a basis for judgment of compensation received by individual corporation executives, nevertheless the aggregate data for these 100 companies are significant. In Exhibit 7, the data are organized

on a different basis from that in Exhibit 6. Of the total of approximately 1,000 officers in these companies, each was ranked within a particular compensation limit according to the amount of compensation received during the years 1929 and 1932. The cumulative results, stated as percentages of the total number of officers, show that in 1929, 9% of the officers received at least $100,000, whereas in 1932 only 2% received this amount. Similarly, in 1929 77% received at least $10,000, whereas the corresponding figure for 1932 was 70%. It is clear that the chief reductions took place in the very high compensation groups; and it is probable, too, that the principal bonuses were paid to these groups.

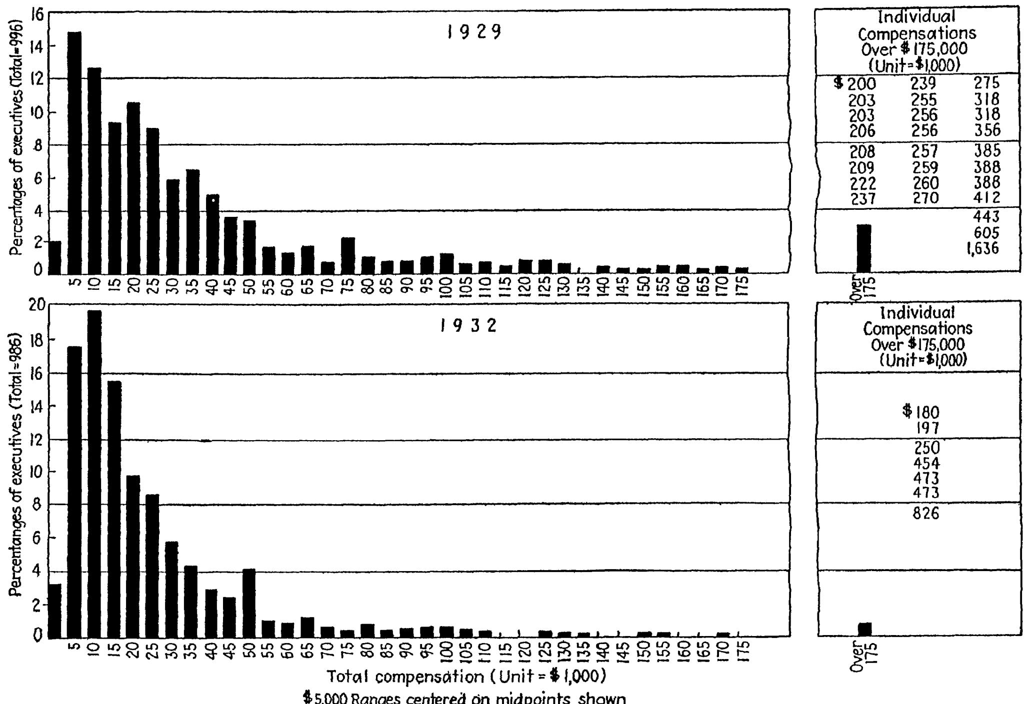
EXHIBIT 7.—CUMULATIVE DISTRIBUTION OF EXECUTIVES[1] OF 100 INDUSTRIAL COMPANIES ACCORDING TO THE AMOUNT OF COMPENSATION RECEIVED: 1929 AND 1932

Amount of compensation	% of the total number of executives employed	
	1929	1932
$100,000 or more	9	2
75,000 or more	14	5
50,000 or more	22	11
25,000 or more	47	32
10,000 or more	77	70
More than 0	100	100

[1] This exhibit is based on compensation data for 996 executives in 1929 and 986 in 1932.

Exhibit 8, showing the distribution of compensation among all executives in 1929 and in 1932, supplements Exhibit 7 and indicates clearly three points: (*a*) The drift of salary figures between the two years 1929 and 1932 was in the direction of a decline even though aggregate salary payments resisted reductions; for example, the $5,000, $10,000, and $15,000 classifications include many more men in 1932 than in 1929, roughly 52% as contrasted with 36%. (*b*) There was a rapid decrease in the number of men receiving compensation over $175,000; 27 executives

EXHIBIT 8.—DISTRIBUTION OF EXECUTIVES OF 100 INDUSTRIAL COMPANIES ACCORDING TO THE AMOUNT OF COMPENSATION RECEIVED: 1929 AND 1932



were in that class in 1929, and only 7 in 1932; the percentage of the total group of executives included in the computation fell from 3 to 1. (*c*) By far the greatest number of executives were in the group receiving less than $50,000 in both years, 78% of all executives in 1929, and 89% in 1932.

Executive Compensation Compared with Other Corporate Payments

The index numbers in Exhibit 9 afford a rough comparison of the payments to executives in the sample with payments in wages, dividends, and interest by all manufacturing corporations. Unfortunately, the comparison is not entirely apt, since the executive compensation figures refer to the sample of only 100 companies, whereas the more general data pertain to an almost complete list of corporations covered in the tax returns. Even with due reservation on this account, the comparison is interesting. Dividends rose slightly, salary payments somewhat more conspicuously, and interest very sharply, in 1930. Bonus payments and wages declined about equally in 1930.

EXHIBIT 9.—FLUCTUATION IN AGGREGATE EXECUTIVE COMPENSATION CLASSIFIED ACCORDING TO TYPE OF PAYMENT FOR 100 INDUSTRIAL COMPANIES, AND WAGE, DIVIDEND, AND INTEREST PAYMENTS MADE BY ALL MANUFACTURING COMPANIES: 1928–1932

(Relatives;[1] 1929 = 100)

Year	100 industrial companies			All manufacturing companies[2]		
	Executive salaries	Executive bonuses	Total executive compensation	Wages	Dividends	Interest
1928	92	75	85	*	*	*
1929	100	100	100	100	100	100
1930	105	82	96	81	102	117
1931	100	41	75	61	74	107
1932	90	18	60	41	41	97

* Data not available.

[1] Based on aggregate dollar figures.

[2] Data (rounded to nearest unit) from U.S. Bureau of Foreign and Domestic Commerce, *National Income*, 1929–1932, U.S. Senate Document No. 124, 73rd Congress, 2d Session, Washington, 1934, p. 75.

Thereafter declines were apparent in all the series. By 1932 the net decline in bonus payments from 1929 was very great; in wages and dividends, much less, although still severe; in executive salary payments, very moderate; in total executive compensation, not too pronounced because of the steadiness in salary payments; and in interest, almost negligible.

EXHIBIT 10.—AGGREGATE DOLLAR ASSETS, NET INCOME, AND EXECUTIVE COMPENSATION FOR 100 INDUSTRIAL COMPANIES AND FOR ALL MANUFACTURING COMPANIES FILING FEDERAL TAX RETURNS:[1] 1929 AND 1932

Items	100 industrial companies			Manufacturing companies filing Federal tax returns[2]		
	Amount (unit = $1,000)		% change, 1929–1932	Amount (unit = $1,000)		% change, 1929–1932
	1929	1932		1929	1932	
Total assets	$12,268,146	$11,438,640	−6.8	*	*	
Net income:						
Companies with income	1,061,564	199,752	......	$5,312,996	$791,701	
Companies with deficit	−5,307	−194,168	......	−775,819	−2,407,970	
All companies	1,056,257	5,584	−99.5	4,537,177	−1,616,269	−135.6
Executive compensation	42,310	25,225	−40.4	1,171,888	734,148	−37.3

* Data not available.

[1] Of the 100 companies, 96% earned a net income in 1929 and 45% in 1932. Of the manufacturing companies, 57% earned a net income in 1929 and 16% in 1932.

[2] Compiled from the United States Treasury Reports, based on corporate income tax returns.

Since bonus payments directly and salaries indirectly are assumed to have some relation to earnings,[1] comparison of these two items with corporate net income should be significant. In examining the net income returns, it was found that the term was interpreted in various ways; for our purpose, however, balance available for dividends was used, and in the small number of cases where such inter-

[1] The term "earnings" here is used in the usual way, not as defined for this study.

pretation was not made in the returns, balance available for dividends as shown in Moody's *Manual of Industrials* was used. Exhibit 10 shows plainly the rapid decline in corporate net income, which by 1932 was only 0.5% of that in 1929. This is the most drastic decline shown in the exhibits, and it emphasizes the fixed or semifixed nature of many corporation expenses, including executive compensation, as compared with net income.

Conclusion

After a study of what happened to executive employment and aggregate compensation among a group of 100 industrial companies from 1928 to 1932, the following points stand out clearly: (*a*) an amazing steadiness in the employment of executives; (*b*) an equally amazing steadiness in their salary; (*c*) a much more widespread use of the bonus than was generally supposed; (*d*) wide fluctuation in bonus payments, but not sufficiently wide to cause total compensation to decline as sharply as wages or dividends; (*e*) only a moderate concentration of officers in the group receiving very high total compensation. A comparison, so far as it is possible, of the principal results of a study of the limited sample of companies used with roughly corresponding figures for all industrial corporations filing tax returns, indicates that the main findings for the sample are broadly true of the more comprehensive list of companies.

CHAPTER III

EXECUTIVE COMPENSATION COMPARED WITH CORPORATE EARNINGS DURING A BUSINESS RECESSION[1]

Stockholders and the public have long been asking two questions concerning executive compensation and earnings. What is the percentage of total executive compensation to earnings in any one year? Is there a relationship between these two items over a period of years? Percentages for the list of 100 industrial companies used as a basis for analysis in Chapter II have been computed for 1929 and for the 1928–1932 period, and the companies have been divided into two groups, those paying a high percentage of earnings to executives in 1929, and those paying a low percentage. This appears to be a much more reasonable definition of high and low executive compensation than actual dollar amounts, as for example, $300,000 or $50,000 annually. Compensation should be related to earnings and the result compared with like figures of other corporations in the same classification. On this basis, high executive compensation[2] means a larger percentage of earnings paid out for this purpose than that paid by other companies in the same group, and, conversely, low executive compensation means a lower percentage of earnings than that for the other companies. The method of classifying a company in the high or the low compensation group will be described later.

[1] Chapter III, in slightly different form, appeared originally as an article in the *Harvard Business Review*, Winter, 1936, entitled, "Executive Compensation Compared with Earnings."

[2] It should be noted that high executive compensation need not necessarily be synonymous with the popular concept of "large salaries."

In order to answer the two questions presented above, earnings and compensation figures need to be clearly understood. Both are defined in detail in Chapter I, but to avoid misunderstanding, the definition of earnings is briefly restated here. Earnings is the net income of a company before the payment of executive compensation and interest,[1] but after all other charges. Depreciation was carefully examined, because of its possible effect on earnings. However, such charges for this group of companies varied so slightly, an average decline of 4.5% from 1929 to 1932, that it was decided not to adjust earnings for depreciation.[2]

Selection of Companies and Period Studied

The 100 companies selected for the investigation were almost entirely manufacturing companies, a cross section of the 450 industrial companies listed on the New York Stock Exchange, which reported the data sought by Senate Resolution No. 75.

The five-year period 1928–1932 was chosen for the survey because complete salary data were submitted to the Federal Trade Commission in answer to certain specific questions, and also because this period covered what appeared to be a segment of business history ranging from the peak of prosperity to the bottom of depression. Corporate earnings for the companies examined reached a peak in 1929 and a bottom in 1932. No attempt was made to interpret the trend of earnings in relation to 1928 compensation.

Executive Compensation as a Percentage of Earnings

With total executive compensation and earnings available for each company, it is possible to arrive at a percentage ratio of compensation to earnings for all companies for

[1] Including bond interest and other charges classified as interest.

[2] The figure "after depreciation" is of direct concern to stockholders, and its use does not materially change the compensation groups or the consequent conclusions drawn in the study. If the earnings figures used had been before depreciation charges, the conclusions reached would have been further accentuated.

EXHIBIT 11.—EXECUTIVE COMPENSATION, EARNINGS[1] AND ASSETS: 1929; EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS: 1929, AND 1928–1932 COMBINED, FOR EACH OF 100 INDUSTRIAL COMPANIES
(Companies ranked according to percentage of executive compensation to earnings in 1929)

Company	Executive compensation 1929: % of earnings[2] (1)	Executive compensation 1929: Amount (unit = $1,000) (2)	Earnings 1929 (unit = $1,000,000) (3)	Assets 1929 (unit = $1,000,000) (4)	Executive compensation, % of earnings 1928–1932 combined (5)
Low Compensation Group					
United States Steel Corporation*...	0.5	$1,157	$213.7	$2,286	1.2
Standard Oil Company of California	1.3	591	47.2	605	1.9
YoungstownSheetandTubeCo.(The)	1.6	413	25.6	236	6.8
Standard Oil Co. (New Jersey)*....	1.7	2,237	132.2	1,767	2.7
Atlantic Refining Company (The)..	1.9	356	18.5	167	2.7
E. I. du Pont de Nemours & Co.*..	2.2	1,707	79.0	497	2.2
Nash Motors Company (The)*.....	2.5	461	18.5	64	4.0
Tide Water Associated Oil Company*	2.6	457	17.3	251	3.2
American Smelting and Refining Co.*	2.7	652	24.4	241	4.9
United Fruit Company............	2.7	493	18.3	226	3.5
General Baking Company.........	2.7	204	7.4	41	3.3
Westinghouse Electric & Manufacturing Company*..............	2.8	789	28.1	254	6.8
Packard Motor Car Company*.....	2.9	752	25.9	81	4.7
Granite City Steel Co.............	3.0	53	1.7	11	5.7
B. F. Goodrich Company (The)....	3.1	333	10.7	164	31.0
Harbison-Walker Refractories Co.*.	3.1	170	5.4	53	5.3
Inland Steel Company*...........	3.2	429	13.5	103	5.1
Lambert Company (The)*.........	3.6	261	7.3	7	5.1
Firestone Tire & Rubber Co. (The)..	3.7	372	10.2	162	4.4
Allis-Chalmers Manufacturing Co.*	3.7	197	5.3	73	6.6
Mid-Continent Petroleum Corp.*..	3.7	294	8.0	86	16.8
Cannon Mills Company...........	3.8	162	4.3	38	5.8
United States Gypsum Company*..	3.8	201	5.3	64	4.3
International Cement Corporation*.	3.8	232	6.1	56	5.2
Radio Corporation of America*.....	3.9	648	16.5	159	4.6
Hudson Motor Car Company......	4.1	493	12.1	69	11.8
Borden Company (The)*..........	4.1	922	22.5	175	5.3
General Foods Corporation*.......	4.1	839	20.3	71	3.8
Standard Brands Incorporated*....	4.4	845	19.2	77	4.7
Ward Baking Corporation..........	4.4	159	3.6	45	4.3
Grigsby-Grunow Co...............	4.5	89	2.0	24	353.0
Chickasha Cotton Oil Co...........	4.7	50	1.1	13	9.4
Deere & Company*..............	4.8	792	16.6	85	8.1
General Railway Signal Company*..	5.1	168	3.3	22	7.6
Hercules Motors Corp.*...........	5.2	62	1.2	4	9.5
A. M. Byers Company*...........	5.2	109	2.1	28	11.6
Liggett & Myers Tobacco Company*	5.3	1,334	25.0	150	4.3
International Harvester Company*.	5.3	2,099	39.4	384	6.6
International Paper and Power Co..	5.4	425	7.8	283	9.7
Loose-Wiles Biscuit Company*.....	5.7	169	3.0	29	6.5
Commercial Solvents Corporation*..	5.8	227	3.9	13	7.0
Mack Trucks, Inc.*...............	5.9	435	7.4	69	11.8
J. I. Case Company*.............	5.9	243	4.1	56	11.7
Air Reduction Company, Inc.*.....	6.0	378	6.4	31	8.4
Corn Products Refining Company*.	6.0	1,045	17.5	127	7.2
American Tobacco Company (The)*	6.1	1,974	32.2	265	6.4
Colorado Fuel & Iron Corporation*.	6.1	260	4.2	80	17.8
International Business Machines Corporation*..................	6.3	462	7.3	40	7.0
Reynolds Metals Co.*............	6.3	242	3.8	11	7.3
Eureka Vacuum Cleaner Co., Inc...	6.6	89	1.4	7	45.3

* These companies, the so-called bonus paying companies, paid compensation in addition to salaries in 1929. All companies in the bonus group, however, did not have definite bonus plans.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] The percentages of compensation to earnings may vary slightly from the ratios of dollar figures as listed because the latter are rounded to the nearest thousand or million.

EXHIBIT 11.—EXECUTIVE COMPENSATION, EARNINGS[1] AND ASSETS: 1929; EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS: 1929, AND 1928–1932 COMBINED, FOR EACH OF 100 INDUSTRIAL COMPANIES.—(*Continued*)

(Companies ranked according to percentage of executive compensation to earnings in 1929)

Company	Executive compensation 1929		Earnings 1929 (unit = $1,000,000)	Assets 1929 (unit = $1,000,000)	Executive compensation, % of earnings 1928–1932 combined
	% of earnings[2]	Amount (unit = $1,000)			
	(1)	(2)	(3)	(4)	(5)
High Compensation Group					
American Locomotive Company*	6.6	$ 486	$ 7.3	$106	24.4
Bethlehem Steel Corporation*	6.9	3,973	57.4	802	9.2
Colgate-Palmolive-Peet Company*	7.1	694	9.8	64	8.2
Kimberly-Clark Corporation	7.2	325	4.5	49	11.3
United States Rubber Company*	7.3	511	7.0	249	†
American Encaustic Tiling Co., Ltd.	7.3	55	0.8	5	61.3
Bulova Watch Co., Inc.	7.3	150	2.0	7	10.2
Otis Elevator Company*	7.4	670	9.0	54	8.6
Western Dairy Products, Inc.	7.5	142	1.9	22	10.1
Thatcher Manufacturing Co.*	7.5	75	1.0	6	8.4
Bayuk Cigars Incorporated*	7.7	126	1.6	16	21.3
Pittsburgh Steel Company*	8.0	207	2.6	61	23.6
Mathieson Alkali Works, Inc. (The)*	8.0	202	2.5	22	9.8
Julius Kayser & Company*	8.1	260	3.2	25	14.1
Allegheny Steel Company*	8.6	309	3.6	31	16.5
Weston Electrical Instrument Corp.*	8.9	95	1.1	5	16.9
Crosley Radio Corp.	9.0	108	1.2	7	9.2
Brown Shoe Company, Inc.*	9.1	174	1.9	20	9.0
Lee Rubber & Tire Corp.	9.2	61	0.7	11	293.0
A. G. Spalding & Bros.	9.7	243	2.5	23	29.1
Vulcan Detinning Co.*	10.0	69	0.7	7	16.1
L. S. Starrett Co.	10.7	91	0.8	5	21.6
American Steel Foundries*	10.8	625	5.8	59	18.4
Clark Equipment Co.*	10.9	164	1.5	12	23.6
Pillsbury Flour Mills Company	11.0	275	2.5	33	11.5
Chicago Pneumatic Tool Company*	11.0	225	2.0	22	19.1
Baldwin Locomotive Works (The)	11.2	391	3.5	99	42.5
Real Silk Hosiery Mills, Inc.*	11.7	273	2.3	13	15.7
Federal Motor Truck Co.*	12.4	76	0.6	8	53.0
Mohawk Carpet Mills, Inc.*	12.4	256	2.1	26	31.1
United Dyewood Corp.	12.9	86	0.7	23	20.1
American Brake Shoe and Foundry Company*	13.3	495	3.7	33	15.9
Archer-Daniels-Midland Company	14.6	248	1.7	24	14.9
Pet Milk Company*	16.1	147	0.9	16	16.9
Austin, Nichols & Co., Inc.	16.2	53	0.3	3	†
Manhattan Shirt Co.	16.3	192	1.2	15	34.6
Intertype Corporation	16.4	160	1.0	8	23.4
Trico Products Corp.*	17.1	462	2.7	6	13.5
Devoe & Raynolds Company, Inc.*	18.9	252	1.3	14	27.6
National Distillers Products Corp.*	19.4	180	0.9	28	15.7
L. A. Young Spring & Wire Corp.*	19.5	304	1.6	10	11.9
Phillips-Jones Corporation	20.6	133	0.6	10	89.0
Snider Packing Corp.	22.8	88	0.4	9	†
Adolf Gobel, Inc.	23.0	80	0.3	12	19.0
Superior Steel Corp.	25.6	67	0.3	7	†
American-LaFrance & Foamite Corp.	29.4	129	0.4	13	†
Century Ribbon Mills, Inc.	122.5	148	0.1	6	160.5
American Woolen Company	†	437	*Loss 2.8*	114	†
Gabriel Company (The)	†	43	*Loss 0.3*	2	†
Norwalk Tire & Rubber Co. (The)	†	34	*Loss 0.4*	2	†

* These companies, the so-called bonus paying companies, paid compensation in addition to salaries in 1929. All companies in the bonus group, however, did not have definite bonus plans.

† A deficit before executive compensation, interest, and dividends was reported for the period.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] The percentages of compensation to earnings may vary slightly from the ratios of dollar figures as listed, because the latter are rounded to the nearest thousand or million.

1929, as well as for the five-year period 1928–1932. In Exhibit 11, the 100 companies are ranked according to this percentage ratio for 1929. The exhibit also indicates for each company in 1929 executive compensation (column 2), earnings (column 3), and assets (column 4); the percentages of executive compensation to earnings for the five-year period appear in column 5. By arranging the companies in a series, according to percentages of compensation to earnings from the lowest to the highest for the year 1929, 50 companies fell into the low compensation group and 50 in the high group. The fiftieth company in the low compensation group had a ratio of executive compensation to earnings of 6.55%, and the fifty-first company, or first in the high compensation group, 6.64%; thus, the median average[1] for the entire group can be fixed between the two at 6.6%, and the percentages of all companies for 1929 can be related to this figure. It can be concluded from this that approximately 6.5% of earnings constituted the average amount paid executives by the 100 industrial companies in 1929.

Even a cursory examination of columns 1 and 4 of Exhibit 11 will disclose that, as a rule, the companies with large assets pay a smaller percentage of earnings to executives than companies with small assets. This is true for 1929 as well as for the five-year period. A careful study of the assets of the companies indicated that approximately half of them had assets of $30,000,000 or less in 1929 and half of them assets of over $30,000,000. A division of the 100 companies was made, therefore, with $30,000,000 as the upper limit of the small companies and the lower limit of the large companies, as shown by Exhibit 12.

[1] Throughout this book, frequent use is made of the median average or the representative figure. This choice was made because certain companies would have disproportionate weight if an arithmetic average was employed. For example, the arithmetic average total compensation for the high compensation group is $300,000 whereas the median is $175,000. The latter figure is much more typical than the former, which is heavily weighted by two or three extreme items.

The median percentage of earnings to executives in 1929 proved to be 9.7% for the small companies as contrasted with 4.1% for the large companies. There are, however, notable exceptions to this conclusion. Twelve of the small companies fall into the low compensation classification, and thirteen of the large companies fall into the high compensation group. The Lambert Company is an outstanding example of a company with small assets in the low compensation group. With assets of $7,000,000, it paid in total executive compensation 3.6% of earnings in 1929 and 5.1% as a five-year average. A notable example of a large company in the high compensation group is the Bethlehem Steel Corporation.[1] With assets of $802,000,000 the percentage of executive compensation to earnings in 1929 was 6.9%, slightly more than the median. The evidence available, however, concerning the percentages of earnings paid to executives of large and small companies indicates rather conclusively that as a rule the large companies paid a lower percentage of earnings to executives than the small companies.[2]

EXHIBIT 12.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS,[1] AND LOW AND HIGH COMPENSATION GROUPS IN 100 INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO SIZE: 1929

Items	Small companies (assets less than $30,000,000)	Large companies (assets of $30,000,000 or more)
Percentage of earnings paid to executives (median)	9.7%	4.1%
Number of companies in the *low* compensation group	12	38
Number of companies in the *high* compensation group	37	13

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[1] Exhibit 11 indicates other outstanding examples.

[2] In several different investigations of possible quantitative relationships between executive compensation and assets or earnings, the evidence indicated very little correlation.

The contrast between the ratio of total executive compensation to earnings for the one-year period 1929 and for the five-year period 1928–1932, as shown in Exhibit 11, column 5, is one of the most interesting in the entire study. With earnings declining rapidly after 1929, the rising ratio for the five-year period indicates the roughly stable nature of executive compensation. The median rose from 6.6% in 1929 to 10.8% for the five-year period. However, the effect on certain specific companies is phenomenal. For example, the Grigsby-Grunow Company's ratio rose from 4.5% in 1929 to 353.0% for the five-year period, over three and one-half times earnings; and the ratio for the Lee Rubber & Tire Corporation rose from 9.2% in 1929 to 293.0%, almost three times earnings.[1] It is also interesting to note that several of the companies have a smaller percentage of compensation to earnings for the five-year period than for the one-year period, as for example General Foods Corporation, and also that a small group of them did not even earn executive salaries in either period. From these exceptional examples, as well as other comparisons of ratios for the year 1929 with the five-year period, a question may well be raised as to the wisdom of paying executives additional compensation on the basis of the earnings of any one year.

The question of relationship between executive compensation and earnings over a period of years involves much more than a general picture of the percentages of compensation to earnings for the various companies studied. The ranking of all the companies according to this percentage in 1929, as indicated in Exhibit 11, shows clearly great variations among companies, as for example the spread between 0.5% for the United States Steel Corporation and the payment of salaries larger than total earnings by the American Woolen Company.

[1] The rise in the percentage is mainly due to the fall in the denominator, earnings.

The ranking of companies by the one-year average gives about the same results as by the five-year average, so far as high or low classification is concerned; only nine companies change from one group to the other, when ranked according to the five-year average. The 1929 period was selected for the ranking of the companies because earnings and compensation were then at a peak, which should mean, theoretically at least, that the incentive to executives for the continued successful operation of their companies would be greatest. Also, since the earnings of these two groups over a period of five years are to be contrasted, the use of the one-year period merely for segregating companies into the two groups is believed to be statistically sounder.

Exhibit 13 summarizes certain significant characteristics of the high and low compensation groups. An outstanding difference is in the amount of the aggregate assets, which for the low compensation group is about 4½ times that of the high compensation group; and aggregate earnings for the low compensation group are slightly over 6 times

EXHIBIT 13.—AGGREGATE AND TYPICAL ASSETS, EARNINGS,[1] AND EXECUTIVE COMPENSATION FOR 100 INDUSTRIAL COMPANIES CLASSIFIED IN LOW AND HIGH COMPENSATION GROUPS: 1929

Items	No. of companies	Assets (unit = $1,000,000)	Earnings (unit = $1,000,000)	Executive compensation (unit = $1,000)
Aggregates:				
Low compensation group	50	$ 9,995	$1,017.8	$27,531
High compensation group	50	2,224	158.4	15,049
All companies	100	12,219†	1,176.2	42,580†
Medians:				
Low compensation group	50	77	9.0	400
High compensation group	50	16	1.6	175
All companies	100	33	3.5	250

† These total figures differ somewhat from similar total figures in Exhibits 6 and 10 because of somewhat different methods of handling the basic data.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

those of the high compensation group. Aggregate executive compensation of the low group, however, is less than twice that of the high compensation group. Or, expressing it differently, aggregate executive compensation of the low group is only 2.7% of aggregate earnings, while for the high group it is 9.5% and for the group as a whole only 3.6%. Comparable results are obtained by contrasting these percentages with the median figures in the low, high, and combined compensation groups.

Effect of Executive Compensation on Earnings

With the companies classified into high and low compensation groups, an attempt can be made to discover whether there was less fluctuation in earnings throughout the 1928–1932 period in those companies paying high compensation than in those in the low compensation group.

Aggregate earnings for the entire group as well as for the high and low compensation groups are given in Exhibit 14, and are graphically traced, after being converted into relative numbers, in Exhibit 15. The evidence appears clear that earnings in the high compensation group fluctuated more widely and declined farther after 1929 than

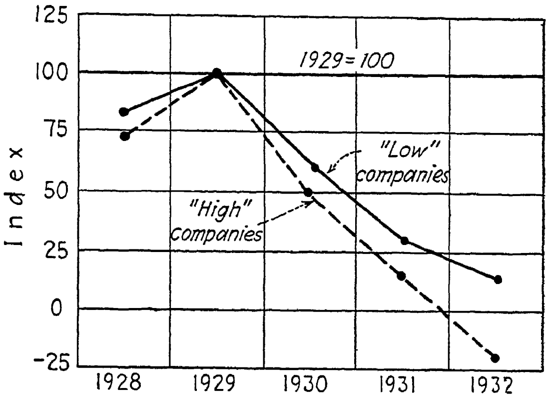
EXHIBIT 14.—FLUCTUATION IN AGGREGATE EARNINGS[1] FOR 100 INDUSTRIAL COMPANIES CLASSIFIED IN LOW AND HIGH COMPENSATION GROUPS: 1928–1932

Year	50 companies in *low* compensation group in 1929		50 companies in *high* compensation group in 1929		All companies	
	Amount (unit = $1,000,000)	Relatives (1929 = 100)	Amount (unit = $1,000,000)	Relatives (1929 = 100)	Amount (unit = $1,000,000)	Relatives (1929 = 100)
1928	$ 841	83	$116	73	$ 957	81
1929	1,018	100	158	100	1,176	100
1930	627	62	79	50	706	60
1931	303	30	21	13	324	28
1932	143	14	*Loss 32*	*Loss 20*	111	9

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

in the low group. Earnings in the low group declined from over $1,000,000,000 in 1929 to $143,000,000 in 1932, while

EXHIBIT 15.—FLUCTUATION IN AGGREGATE EARNINGS[1] FOR 100 INDUSTRIAL COMPANIES CLASSIFIED IN LOW AND HIGH COMPENSATION GROUPS:[2] 1928–1932



[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] The companies are grouped according to the percentage of earnings paid to executives in the year 1929.

during the same period earnings in the high group fell from $158,000,000 to a deficit of $32,000,000.

Effect of Size of Company as Indicated by Assets on Percentages

To avoid the criticism that the size of the companies might affect the validity of the conclusion, the entire group of companies may again be divided on the basis of total assets in order to examine and compare the percentage declines in compensation and earnings in the large and small groups. The results, as shown in Exhibit 16, vary little from those of the general study. The chief point to be noted is that the earnings of both small and large companies in the high compensation group declined more from 1929 to 1932 than in the case of companies of similar size in the low compensation group.

EXHIBIT 16.—DECLINE IN AGGREGATE EARNINGS[1] FROM 1929 TO 1932 FOR 100 INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO SIZE IN LOW AND HIGH COMPENSATION GROUPS[2]

Items	Small companies (1929 assets less than $30,000,000)		Large companies (1929 assets of $30,000,000 or more)	
	No. of companies	Percentage[3]	No. of companies	Percentage[3]
Executive compensation as a percentage of earnings in 1929 (median)	49	9.7	51	4.1
Percentage decline in aggregate earnings from 1929 to 1932:[4]				
Low compensation group	12	−97	38	−90
High compensation group	37	−108	13	−127

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] Because of the size of sample, attention should be given to the direction rather than to the definite changes in percentages.

[3] A decline of more than 100% indicates the existence of a deficit.

[4] Companies are grouped according to percentage of earnings paid to executives in 1929.

Companies Producing Industrial and Consumers' Goods

Any sample of industrial companies is likely to include companies from two general categories, those producing industrial goods and those producing consumers' goods. Since it is generally recognized that these two groups are differently affected by business conditions, an examination of the companies falling in the two groups, as shown in Exhibit 17, seemed necessary to discover whether any results might be obtained which would affect the conclusions of this study. The first outstanding conclusion from the result of this inquiry agrees with existing knowledge of the trend of earnings of these two groups during a depression; that is, earnings of companies producing industrial goods declined more than earnings of companies producing consumers' goods.

Here again no changes are revealed which in any way impair the validity of earlier evidence. Earnings for com-

EXHIBIT 17.—DECLINE IN EARNINGS[1] FROM 1929 TO 1932 FOR 100 INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO PRODUCTION OF INDUSTRIAL AND CONSUMERS' GOODS IN LOW AND HIGH COMPENSATION GROUPS[2]

Items	No. of companies	% decline in earnings from 1929 to 1932[3]	
		Companies producing industrial goods	Companies producing consumers' goods
Low compensation group.......	50	−113	−67
High compensation group.......	50	−124	−98

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] Companies are grouped according to percentage of earnings paid to executives in 1929.

[3] A decline of more than 100% indicates the existence of a deficit.

panies in the high compensation group for both producers' and consumers' goods declined substantially more from 1929 to 1932 than for companies in the low compensation group. Also the decline in earnings of the companies manufacturing industrial goods as contrasted with that of the companies manufacturing consumers' goods is noteworthy. In the low compensation group, earnings in the five-year period for the industrial goods companies declined 113% to a deficit, and for consumers' goods companies, earnings declined only 67%. In the high compensation group the earnings of industrial goods companies declined 124%, likewise to a deficit, and those of consumers' goods companies declined 98%.

Bonus and Non-bonus Paying Companies

Much has been written about executive bonus plans or incentive compensation.[1] The proponents of these plans believe that executives will be given a feeling of proprietorship which will become a substitute for ownership and encourage them to strive hard for increased earnings. Let

[1] For a detailed discussion of bonus plans see Chap. IX.

us examine briefly the results of the application of this theory.

The owners, the common shareholders of a corporation, are chiefly interested in earnings. They desire their directors to employ executives who will manage their companies successfully, and they are willing to pay their executives on this basis. For this reason, or so it is generally assumed, elaborate bonus plans have been devised and substantial payments made in addition to salaries. These plans were used by approximately two-thirds of the companies studied at some time during the period, and their prevalence suggests that the company directors feel fairly certain of the results to be secured by offering additional incentives. But are these assumptions based on facts? The results of this study should throw light on this question. A simple comparison can be made for the period studied of the change in the earnings of the two groups—those companies that pay bonuses and those that do not. If incentive in the form of additional compensation is effective, then the companies paying a bonus should have decidedly steadier earnings, or a smaller drop in earnings during the period studied, than those that do not use a bonus plan.

Exhibits 18 and 19 give the results of this special study. Although no exceedingly important variations from the previous conclusions can be drawn here, nevertheless it appears that the bonus paying companies had an advantage over the non-bonus paying companies for every year, so far as a decline in earnings was concerned. The difference, however, is slight, particularly in 1932. Because of the difference in the number of companies in each group and other factors, too much emphasis should not be placed on this comparison. Also other characteristics of the bonus paying and non-bonus paying companies doubtless affected these conclusions somewhat. For example, there was an equal number of bonus paying and non-bonus paying companies in the small asset classification; but there were three times as many bonus paying companies in the large asset

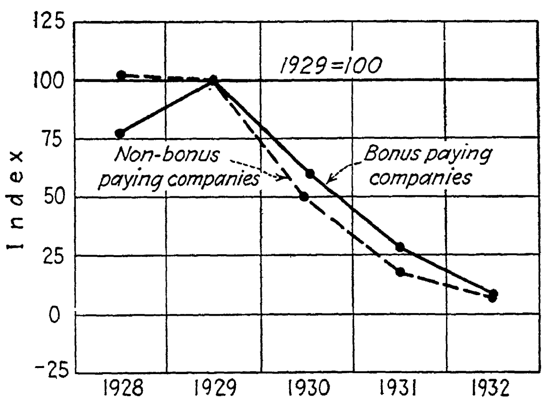
group as there were non-bonus paying companies. Also approximately two-fifths of the bonus paying companies

EXHIBIT 18.—FLUCTUATION IN AGGREGATE DOLLAR EARNINGS[1] FOR 100 INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO THE PAYMENT OF BONUSES IN 1929: 1928–1932

Year	62 companies paying bonuses in 1929		38 companies not paying bonuses in 1929	
	Amount (unit = $1,000,000)	Relatives (1929 = 100)	Amount (unit = $1,000,000)	Relatives (1929 = 100)
1928	$ 784	78	$173	102
1929	1,006	100	170	100
1930	622	62	84	49
1931	292	29	31	18
1932	95	9	14	8

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

EXHIBIT 19.—FLUCTUATION IN AGGREGATE EARNINGS[1] FOR 100 INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO THE PAYMENT OF BONUSES IN 1929: 1928–1932



[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

are in the high compensation group and three-fifths in the low compensation group. One-third of the bonus paying companies are in the consumers' goods group, and two-thirds in the industrial goods group.

Executive Compensation as a Percentage of Sales

Instead of securing the ratio of total executive compensation to earnings for each company and using it as a base, the ratio of executive compensation to net sales might have been used since sales volume has frequently been used as a base in other analyses of company expense. This did not appear feasible as the chief approach to the problems presented in this study, since only 50 of the 100 companies selected furnished sales figures. An examination was made, however, to see if the results of an analysis of the sales figures available would vary greatly from the evidence secured on the basis of earnings.

Exhibits 20 and 21 reveal clearly the results of this examination. The percentage of total executive compensation to sales for each of the companies furnishing sales figures was computed, and the companies were classified according to those falling in the high and low compensation groups. A comparison was made of the earnings of the two groups for the five-year period 1928–1932, and the results, although definitely limited in significance because of the small number of companies studied, agree with previous conclusions: that the earnings of companies in the high compensation

EXHIBIT 20.—FLUCTUATION IN AGGREGATE EARNINGS[1] FOR 50 INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO PERCENTAGE OF SALES PAID TO EXECUTIVES IN 1929: 1928–1932

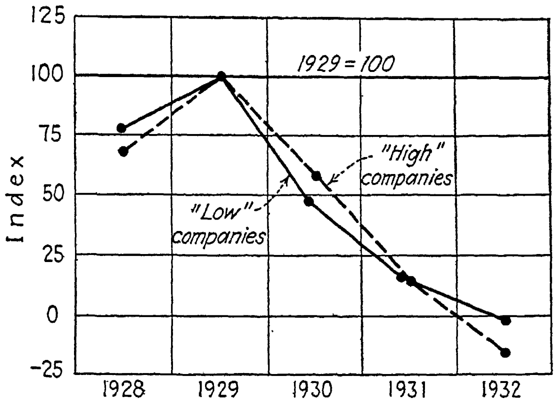
Year	25 companies paying a low % of sales to executives in 1929		25 companies paying a high % of sales to executives in 1929	
	Amount (unit = $1,000,000)	Relatives (1929 = 100)	Amount (unit = $1,000,000)	Relatives (1929 = 100)
1928	$441	77	$ 82	68
1929	573	100	120	100
1930	267	47	73	61
1931	79	14	18	15
1932	*Loss 9*	−2	*Loss 18*	−15

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

group declined more over the entire period than the earnings of those in the low compensation group. While there was some variation from this in 1930 and 1931, it was so slight as to be of little significance.

Other interesting comparisons were revealed from examination of the data relating compensation to sales. Small companies generally paid out a higher percentage of sales to executives than large companies. Also the companies

EXHIBIT 21.—FLUCTUATION IN AGGREGATE EARNINGS[1] FOR 50 INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO PERCENTAGE OF SALES PAID TO EXECUTIVES IN 1929: 1928–1932



[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

paying high percentages of sales in compensation were for the most part the same companies that paid out high percentages of earnings.

Conclusion

From a statistical analysis of data showing the relationship between executive compensation and earnings, exact answers to all the questions relating to compensation could not be derived, but the results were sufficiently precise to make possible the following significant conclusions.

In general, companies with small assets show a higher percentage of executive compensation to earnings than

companies with large assets. That such a situation must exist because of the difference in size was not borne out by this inquiry, since one-fourth of the small companies were classified in the so-called low compensation group and about the same proportion of the large companies in the high compensation group.

The difference between the percentage of executive compensation to earnings in a very prosperous year, 1929, and the average for the good and bad years, 1928–1932, was not large, only 4.2%. There were, however, certain companies in which the difference in percentages was exceptionally large. For this reason any method of compensation used by any one company based on only one year's earnings may give highly unsatisfactory results.

There is no substantial statistical evidence to show that directors of corporations either increase or decrease earnings by paying executives a higher proportion of compensation to earnings. Indeed the opposite apparently occurred; those companies having a high percentage of compensation to earnings secured less satisfactory results than those with a low percentage. No variations from this evidence appeared in either large or small corporations or in corporations manufacturing industrial goods as compared with those manufacturing consumers' goods.

CHAPTER IV

EXECUTIVE COMPENSATION METHODS AND PAYMENTS IN RETAIL COMPANIES: 1928–1936[1]

The studies of the 1928–1932 record of executive compensation which are developed in Chapters II and III suggest that different executive compensation policies were followed in different industries, and that any study of a group of companies, regardless of industrial classification, might conceal in a capricious manner characteristics and procedures of fundamental importance. For this reason the problem of carefully exploring the area of executive compensation was broadened greatly. The field of retail distribution, in which detailed statistical information was available and in which many cost studies had been made by the Harvard Bureau of Business Research, was examined first. A review of all the material available indicated that a much more comprehensive study could be made than had been previously deemed possible for the entire group of companies. The scope of the analysis, therefore, was widened to include, in addition to the regular data concerning how much and in what way executives were paid, other important questions of corporate significance.

Nearly all large, publicly owned corporations of the present day began as small proprietorships, or as family or local companies, and grew slowly into nationally known organizations. Retail trade, traditionally a stronghold of small proprietors and of family ownership, has been influenced markedly only in the last 15 or 20 years by this trend toward

[1] Chapters IV and V, in slightly different form, appeared originally in March, 1937, as a Harvard Bureau of Business Research Study, entitled "The Compensation of Executive Officers of Retail Companies, 1928–1935."

wide diversity of ownership which has been clearly evident in other lines of business for a much longer time. Only 10 of the 38 companies examined in this study were listed on the New York Stock Exchange prior to 1922, while 28 of them were listed during or since that year. Of the latter group, approximately one-third were listed during or since 1928. Usually the listing of a firm on the New York Stock Exchange leads to a wide dispersion of shares. That a high degree of concentration in stock ownership still exists among retail companies, as contrasted with industrial corporations, is clearly evident.

Prior to the disclosure of executive compensation data by the Federal Trade Commission and the Securities and Exchange Commission, one of the important sources of

EXHIBIT 22.—SELECTED OPERATING EXPENSE FIGURES OF LARGE DEPARTMENT STORES, LIMITED PRICE VARIETY CHAINS, AND GROCERY CHAINS[1]

(Median figures;[2] net sales = 100 %)

Items	Department stores with net sales of $20,000,000 or more, 1936	Variety chains, 1936	Grocery chains, 1934
Number of reporting firms	11	19	29
Total expense including interest	35.1 %	29.7 %	23.28 %
Pay roll:			
Total	17.7	14.8	12.23
Direct and general selling[3]	8.1	12.0	8.93
Buyers and assistants	2.1		
Executive	0.75		
Officers, executives, buyers, and superintendents or supervisors[4]	......	1.6	1.26

[1] Harvard Business School, Bureau of Business Research Bulletin No. 104, *Operating Results of Department and Specialty Stores in 1936*, by Carl N. Schmalz, p. 22; Bulletin No. 99, *Expenses and Profits of Food Chains in 1934*, by Carl N. Schmalz, p. 20; also hitherto unpublished figures prepared by the Bureau for variety and grocery chains.

[2] The figures for department stores are adjusted medians; i.e., in selecting them, consideration was given to the interquartile average and the arithmetic average of the percentages reported for each item by the separate companies. The percentages for the chains are true median figures with no adjustment.

[3] For chains, total store salaries and wages.

[4] The chain store executives included in these classifications perform a substantially larger number of functions than those performed by department store executives of the two classifications listed.

information on this, as on other aspects of operating expense in the retail field, was the studies of the Harvard Bureau of Business Research. These studies present for various retail trades average operating expenses expressed as percentages of net sales. In order to help the reader get his bearings as to the relative importance of total expense and of payments to retail employees, whether executives or clerks, a few figures have been summarized in Exhibit 22 from various bulletins of the Bureau. For department stores an average percentage is given for executive pay roll. In the case of chains, however, corresponding figures are not available since executive compensation is included in a more general item covering salaries of buyers and supervisors.

The information in the exhibit indicates that executive compensation in the retail field amounts to but a small proportion either of net sales or of total expense. The figures also show that retail chain expense percentages, in general, are lower than department store expense percentages, a fact which is explained in part by differences in organization, kind of goods distributed, and corporate policies.

As explained previously, clearly understood definitions of the terms used in these analyses are essential. Here, as stated in Chapter I, the three most important terms to be kept in mind are "the executive group," "executive compensation," and "earnings"; the definitions given earlier also apply in this study.

Since the material used was limited to statistics for publicly owned department store and chain corporations,[1] no very small concerns are included in the group of 38 companies examined. There is a wide range, however,

[1] The classification of a company in either the chain or the department store group is based not on the number of stores operated, but rather on the type of organization. Several companies included in the department store category, among them the one having the largest sales in the group, operate more than one store. Also several stores describing themselves as "specialty stores" are included as department stores.

between the annual sales figures for the smallest and the largest of the companies considered. Exhibit 23 shows the distribution of the companies by size (sales volume) in 1929.

The median average sales volume per company for the entire group of firms was $41,000,000 in 1929. The corresponding average for the department store group was $28,000,000, being notably (approximately one-third) lower than the chain store group average of $47,000,000. The difference in size between department store companies and chains is even more apparent in the distribution of the several concerns by volume groups. Six chain store companies had annual sales exceeding $200,000,000 in 1929, while only one company in the department store group had sales approaching this figure, the sales for this firm being between $160,000,000 and $180,000,000.

EXHIBIT 23.—DISTRIBUTION OF 38 RETAIL COMPANIES ACCORDING TO VOLUME OF SALES:[1] 1929

Volume of sales (unit = $1,000,000)	No. of companies		
	Department store companies	Chain store companies	Total
Less than $20	5	3	8
$20 to $40	4	7	11
40 to 60	2	2	4
60 to 80	0	2	2
80 to 100	0	1	1
100 to 120	1	1	2
120 to 140	0	0	2
140 to 160	2	1	1
160 to 180	1	0	1
180 to 200	0	0	0
200 or more	0	6	6
All companies	15	23	38
Average sales per company (median)	$28	$47	$41

[1] For two department store organizations and one chain company exact sales figures were not available. Estimates for 1929, based on the figures reported by these three companies for other years, have been used in preparing this exhibit.

Fluctuation in Sales

Retail dollar sales volumes varied substantially over the period 1928 to 1936. The extent of the change is of considerable interest in connection with the study of differences in dollar compensation of executives during these same years. Exhibit 24 presents typical sales figures for each

EXHIBIT 24.—FLUCTUATION IN AVERAGE SALES PER COMPANY FOR 13 DEPARTMENT STORE COMPANIES AND 19 CHAINS:[1] 1928–1936

Year	Average sales per department store company		Average sales per chain	
	Medians (Unit = $1,000,000)	Relatives (1929 median = 100)	Medians (Unit = $1,000,000)	Relatives (1929 median = 100)
1928	$27.1	98	$65.1	95
1929	27.7	100	68.5	100
1930	26.7	96	71.4	104
1931	22.9	83	75.7	111
1932	19.2	69	65.7	96
1933	19.2	69	65.0	95
1934	20.2	73	75.7	111
1935	21.0	76	78.5	115
1936	24.4	88	86.8	127

[1] Two department store companies and four of the smaller chains did not report sales data for all of the nine years. Figures for these six companies have therefore been omitted in preparing this exhibit.

year for 13 department store companies and 19 chains, together with relatives prepared from these sales figures.

It is clear from these statistics that the chains maintained their sales volumes at relatively higher levels during the depression than did the department store companies. Department store sales in 1931 were 17% below corresponding sales in 1929 while chain sales were 11% above the 1929 average. By 1932 and 1933, department store sales were 31% below 1929 and chain sales were but 4% or 5% below. The explanation of the superior record of the chains lies partly in the fact that, through the early years of the depression, many of the chains continued the expansion policy

which had been characteristic of the years prior to 1929. By opening new stores in 1930 and 1931, they secured aggregate sales which varied little from the sales achieved in earlier years through a smaller number of units.[1] Department stores, on the other hand, expanded little, with the result that the decline in total sales from 1929 to 1933 is much more pronounced than that for chains. Relatives based on sales per unit for the chains would have disclosed fluctuations somewhat similar to the fluctuation in department store sales. By 1936 the latter figure was back within 12% of the 1929 level; chain store sales, however, were 27% above 1929 and 10% above their previous high in 1935.

Executive Compensation as a Percentage of Sales

The year-to-year changes in sales volume are reflected to some extent in the changes in the annual percentages of executive compensation to sales. In interpreting the compensation percentages presented in Exhibit 25 for chains and department stores during the years 1928–1936, it will be well to refer to the sales relatives given in Exhibit 24. Obviously if dollar sales decrease and dollar payments to executives are unchanged, the percentages of compensation to sales will rise. Conversely, the degree to which executive compensation payments are adjusted to sales will be reflected in the degree of stability found in the percentage figures over the span of years studied.

In column 2 of Exhibit 25 are given median percentages for executive compensation in chain companies. It will be noted that the typical figures dropped from 0.5% of sales in 1928 to 0.3% in 1930 and then remained fairly uniform from 1930–1936. The decline in the percentage figures in the early years accompanied a rise in chain sales volume.

[1] Harvard Business School, Bureau of Business Research Bulletin No. 103, *Expenses and Profits of Limited Price Variety Chains in 1935*, by Stanley F. Teele, p. 9; Bulletin No. 101, *Operating Results of Department Store Chains and Department Store Ownership Groups in 1929, 1931–1934*, by Stanley F. Teele, p. 9; Bulletin No. 99, *Expenses and Profits of Food Chains in 1934*, by Carl N. Schmalz, p. 35.

EXHIBIT 25.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF SALES IN RETAIL AND INDUSTRIAL COMPANIES: 1928–1936
(Median figures)

Year	Retail companies[1] reporting to the Federal Trade Commission and to the Securities and Exchange Commission				Department stores reporting to the Harvard Bureau of Business Research				Industrial companies[2] reporting to the Federal Trade Commission and to the Securities and Exchange Commission			
	Chain store companies		Department store companies		Sales volume, 1929, \$10,000,000 to \$20,000,000		Sales volume, 1929, \$20,000,000 or more		Small companies		Large companies	
	No. of companies[3]	Executive compensation	No. of companies[3]	Executive compensation	No. of companies[3]	Executive compensation	No. of companies	Executive compensation	No. of companies[3]	Executive compensation	No. of companies[3]	Executive compensation
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1928	22	0.5%	13	0.8%	*	*	*	*	24	0.9%	24	0.5%
1929	22	0.4	13	0.8	13	0.9%	9	0.7%	23	0.9	25	0.6
1930	22	0.3	13	0.8	13	0.8	9	0.8	24	1.1	24	0.6
1931	23	0.3	13	1.0	13	1.0	9	0.8	22	1.3	24	0.6
1932	22	0.3	13	1.2	13	0.9	9	1.1	24	1.3	24	1.0
1933	..	*	..	*	13	1.0	9	1.0	..	*	..	*
1934[4]	21	0.3	14	1.1	13	0.8	9	0.8	16	1.	17	0.6
1935[4]	20	0.3	15	1.1	12	0.9	9	0.8	9	1.2	16	0.5
1936	20	0.4	14	0.9	13	0.6	9	0.8	17	1.0	18	0.4

* Data not available.

[1] Companies for which sales figures were available in the sample of 38 companies used in the study.

[2] Companies for which sales figures were available in the sample of 100 industrial companies used in Chaps. II and III. These companies were ranked according to assets in 1929; those having less than the median assets figure of \$27,517,000 were grouped as small companies, while those with assets in excess of the median figure were grouped as large companies. In arriving at the medians for 1934, 1935, and 1936, only those companies were considered which had usable data available for 1928–1932.

[3] Any variations from year to year in the number of companies used resulted from the lack either of sales or of executive compensation data for certain firms.

[4] Revised figures.

After 1930 compensation apparently was closely controlled with reference to the sales volumes realized.

The percentage figures for total compensation of department store executives given in the fourth column of the exhibit are constant at 0.8% of sales for the years 1928–1930 when sales volumes for these department stores were steady. With the fall in sales typical in 1931, however, the median percentage rose by 0.2% of sales. Again in 1932, with sales further diminished, the percentage increased. Improvement in sales in 1934, 1935, and 1936 is reflected in somewhat lower percentages. Evidently the department stores experienced difficulty in adjusting executive compensation to extreme changes in sales income.

The noticeably low level of compensation percentages for chains as compared with department store companies derives, in part, from the larger sales volumes typical of the chains.

It is realized that the sample of 15 department stores and 23 chains used in this study is small in size and that the validity of conclusions based on the data may be subject to some question. The 38 companies, however, constitute practically all the retail firms listed on the New York Stock Exchange for which comparable data are available from the Federal Trade Commission and the Securities and Exchange Commission. In order to check the representative character of the group, whenever possible, the figures for these firms were compared with material submitted by retail companies reporting to the Harvard Bureau of Business Research. Annual reports for 22 of these department store firms with sales of $10,000,000 or more in 1929, including 6 of the 15 used in this analysis, were consulted; and material was prepared which corresponded closely with the data available for the 15 companies.

In the second section of Exhibit 25, columns 5 to 8, median figures for executive compensation[1] in relation to

[1] Executive compensation, as defined by the Harvard Bureau of Business Research, covers the salaries of president, vice president, secretary, treasurer,

net sales are presented for two groups of these department stores reporting to the Bureau, those with sales of $10,000,000 to $20,000,000 in 1929, and those with sales of $20,000,000 or more in 1929. The range of the median percentages for these two sets of department stores is much the same, the figures varying from about 0.6% to 1.1% of net sales. In general, the largest percentage expense occurred in 1931, 1932, and 1933, when sales volumes were relatively low. The figures are slightly lower than those for the department store companies reporting to the Federal Trade Commission and the Securities and Exchange Commission, partly because of differences in the manner of classifying the compensation paid. The compensation of the controller and directors, for instance, is not included in executive compensation figures in the Bureau studies. The differences, however, are not great, and the findings for the firms reporting to the Bureau serve to substantiate the figures based on the reports of the department stores used in this study.

In addition to the percentages presented for retail companies, executive compensation percentages for industrial companies are included for comparison in Exhibit 25. The industrial firms considered were drawn from the sample group of 100 companies used in Chapter II. Percentages for as many of these 100 firms as published annual sales figures were used in preparing the medians presented in columns 10 and 12 for small and large industrial firms. The typical figures for both size groups show increases during the period 1928–1932. The figures for the smaller industrial concerns correspond fairly closely with those typical of the department stores, while the figures for the large industrial firms are lower than those for the department stores, but higher than those for the chains.

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and general manager, a somewhat different group from that covered by the definitions of the Federal Trade Commission and the Securities and Exchange Commission.

As noted above, changes in sales volume explain in part the variations in compensation percentages over the period. Other factors, however, some of them also dependent on the reduction in sales during the depression, may have had an opposite influence on the course of the percentage figures. In some instances, retrenchment in the face of diminishing sales income may have called for a reduction in the number of executives employed; in other instances, dollar payments to executives may have been reduced, either by the automatic functioning of bonus plans or by straight salary cuts.

Trend of Executive Employment

From a review of the data submitted by the 38 retail companies to the Federal Trade Commission and the Securities and Exchange Commission, it was clear that the number of executives reported varied among companies. As few as three executives and as many as thirty were listed in individual company statements, the number varying roughly with the size of the company.

A check on the number of officers reported in successive years by single companies disclosed some year-to-year variations in the number of executives per company. Except in a few instances, however, the differences were not great. Exhibit 26 has been prepared to show for each year the distribution of companies according to the number of executives employed. Both the actual number of companies and the proportion of the total number of companies having fewer than six, six, seven, eight, nine, ten, and more than ten officers are given. For the years 1933, 1934, 1935, and 1936, figures were not available for all 38 companies. It is believed, nevertheless, that the proportionate distribution of the firms is fairly representative during this period.

Throughout the years studied, from 48.5% to 63.6% of the companies had six, seven, eight, nine, or ten officers each, while the median number for the entire group of companies varied between seven and eight officers until 1936, when it went up to nine. With the exception of the year

EXHIBIT 26.—DISTRIBUTION OF RETAIL COMPANIES ACCORDING TO NUMBER OF EXECUTIVES PER COMPANY: 1928–1936

Number of executives per company	1928		1929		1930		1931		1932		1933		1934[1]		1935[1]		1936	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Fewer than 6	8	21.1	9	23.7	8	21.1	8	21.0	12	31.6	8	24.3	8	22.2	6	19.3	7	20.0
6	5	13.2	1	2.6	4	10.5	5	13.2	3	7.9	7	21.2	5	13.9	8	25.8	2	5.7
7	8†	21.0	4	10.5	5	13.2	5	13.2	5	13.2	4	12.1	3	8.3	4	12.9	5	14.3
8	4	10.5	9	23.7	4	10.5	4	10.5	3	7.9	4	12.1	6	16.7	2	6.5	2	5.7
9	3	7.9	4	10.5	3	7.9	1	2.6	5	13.2	2	6.1	3	8.3	2	6.5	4	11.4
10	3	7.9	2	5.3	3	7.9	6	15.8	4	10.5	4	12.1	3	8.3	2	6.5	4	11.4
More than 10	7	18.4	9	23.7	11	28.9	9	23.7	6	15.7	4	12.1	8	22.3	7	22.5	11	31.5
Total number of companies[2]	38	100.0	38	100.0	38	100.0	38	100.0	38	100.0	33	100.0	36	100.0	31	100.0	35	100.0
Total number of officers	316	.....	336	.....	337	.....	326	.....	313	.....	248	.....	290	.....	244	.....	316	
Median number of officers per company	7	.....	8	.....	8	.....	8	.....	7	.....	7	.....	8	.....	7	.....	9	

† Includes estimated figures for two companies.
[1] Revised figures.
[2] Variation in the number of companies is caused by lack of data for certain companies in the last four years.

1932, from 19.3% to 24.3% of the firms employed fewer than six executives. In 1932, the worst year of the depression, this percentage increased to 31.6%. Similarly, in 1932 and 1933 the proportions of firms having more than ten officers each dropped to 15.7% and 12.1%, respectively. In earlier years, the percentage of companies so staffed had varied from 18.4% to 28.9%. Evidently, at the lowest point of the depression retail firms were economizing by direct elimination of executives or by not replacing executives when vacancies occurred in the ranks. This point is further substantiated by the figures below, summarized from Exhibit 26, together with relatives based on them. It

AGGREGATE NUMBER OF EXECUTIVES EMPLOYED BY 38 RETAIL COMPANIES: 1928–1932

Year	Actual	Relatives (1929 = 100)
1928	316	94
1929	336	100
1930	337	100
1931	326	97
1932	313	93

appears from these data that the total number of executives was increased in 1929, maintained at a fairly uniform level through 1930, then cut in 1931 and again in 1932. Comparing 1932 with 1929, it is seen that there was a decline of 23 men in the official ranks of the 38 retail companies, on the average less than one man per company. This drop amounts to about 7% of the total number of executives listed for 1929. In studying changes in the total compensation of executives over the period, then, allowance should be made for the fact that, in general, fewer officers were employed from 1931 to 1933 than in the years 1929 and 1930.

It should be realized that changes in the identity of the executive body are not considered in Exhibit 26. As a check on the stability of the group, the names of all officers and directors receiving fees or salaries of more than $1,000

in 1929 were compared with those similarly listed in 1932. About two-thirds of these executives and directors were listed in both years. No attempt was made to check any shifts of officers among the companies if such occurred during the period; nor was any study made of changes in rank for any of the men other than those listed as presidents in 1929.

Tenure of office was considered, however, in the case of company presidents. Examination of the identity of the presidents in 1929 and 1932 was made for the 37 companies reporting details on official ranking. This showed that in these 37 companies 9 men left their positions as presidents. Five of these men were promoted to the position of chairman of the board, one became a director, and three dropped out for other reasons. Looking at this question from another angle, 28 of the 37 presidents in 1929 retained their positions from 1929 through 1932. If the period 1929 through 1936 be reviewed, it is found that for the 37 companies giving the information, 19 presidents retained their rank.

Fluctuation in Executive Compensation

The preceding sections have pointed out that the percentages of total retail executive compensation to sales varied from year to year, rising during the depression. Several contributing factors have been noted in connection with this finding: the effect on the percentages of the decline in the basic sales figures; the possibility of change in total dollar compensation arising from changes in the number of officers employed; and the possible actual reduction of dollar compensation through the functioning of bonus plans or through straight salary cuts during the depression.

Since the rising percentage expenditure during 1931 and 1932 did not show clearly what was actually happening to executive payments, it was decided to study the dollar executive compensation figures by themselves, not relating them to a second variable. Accordingly, for each retail

EXHIBIT 27.—FLUCTUATION IN TYPICAL COMPENSATION OF ALL EXECUTIVES, AND OF THE THREE HIGHEST PAID EXECUTIVES, IN RETAIL COMPANIES: 1928–1936

(Index numbers, medians; 1929 = 100)

Year	38 retail companies reporting to Federal Trade Commission and Securities and Exchange Commission						22 department store companies[1] reporting to Harvard Bureau of Business Research
	All companies		23 chain store companies		15 department store companies		
	All executives	Three highest paid executives	All executives	Three highest paid executives	All executives	Three highest paid executives	All executives
1928	98	100	98	101	100	100	*
1929	100	100	100	100	100	100	100
1930	97†	100	98†	96	96	100	97
1931	94	91	93	85	96	99	94
1932	82	86	72	78	88	89	93
1933	*	*	*	*	*	*	68
1934	84‡	80‡	91‡	76‡	82‡	80‡	75
1935	89§	82‖	90§	83‖	80§	80	77
1936	89¶	87††	97¶	87††	88	91††	77

* Data not available.

† For the year 1930, compensation data for one chain were not available. An estimated figure for this firm has been included in arriving at the medians presented.

‡ For the year 1934, compensation data for two chains and one department store company were not available. An estimated figure for the department store company has been included in arriving at the medians presented. It was not feasible to estimate the figure for either of the chains. Also, in the light of recently available material it was decided to discard as not comparable the 1934 figure for one additional chain. This resulted in a revision of the median figure published previously.

§ For the year 1935, comparable compensation data were not available for five chains. For three of these firms, however, it was possible to use estimates in preparing the median figures. Recent information received for one of the department stores made it possible to include figures for all department stores in arriving at the median. Consequently the median figures here given differ slightly from those previously published.

‖ An estimated figure for one of the six chains for which data were not available has been included in arriving at the median figures for 1935.

¶ Comparable data were not available for three chains in 1936; however, for one of these it was possible to include an estimate in preparing the median figures.

†† In 1936 one of the three highest paid men in each of three chains and in one department store was not an executive as defined for this study. The information available was not sufficiently detailed to justify estimates in these cases.

[1] Firms which reported sales of $10,000,000 or more each in 1929.

company the total amounts paid yearly to all officers listed were compared with the total amount paid by the firm to officers in 1929, and relatives showing the change in dollar compensation were established for each company. These relatives were tabulated for all 38 retail companies, and for the chain and department store companies separately; medians are given in Exhibit 27. Supporting figures are again included for the group of 22 large department stores reporting to the Harvard Bureau of Business Research, as in Exhibit 25.

In recognition of the fact that year-to-year changes in the number of officers employed might influence the total compensation figures, similar index numbers were prepared, based on the total payments made by each company to the three highest paid officers only. These data are given in parallel columns in the exhibit.

The executive compensation figures available from the Federal Trade Commission for the year 1933 cover but nine months. Hence it was not possible to establish index figures for that year for the 38 retail companies used in this report. Fortunately, however, the 1933 figures were available for the 22 department stores reporting to the Harvard Bureau of Business Research, and the data for these firms indicate the probable course of the index number for the 15 department stores reporting to the Securities and Exchange Commission.

For the 38 companies as a whole, the total compensation of executives fell from 100 in 1929 to 82 in 1932; the corresponding figure for the three highest paid executives in the latter year was 86. Reductions in dollar compensation during the period evidently were more substantial for chains than for department store companies. In the case of the chains, total compensation dropped to 72 in 1932, while for department store companies the index dropped to but 88. On the other hand, there is strong indication from the data available for the 22 department stores for 1933 that department stores reduced their payments to execu-

tives drastically in that year, and in 1934, 1935, and 1936 the level of department store executive payments as compared with 1929 was below that of chains. In 1936 there was a tendency for payments to executives in both groups to be somewhat higher than in 1935.

In using the total compensation data for the 38 retail companies for 1934, 1935, and 1936 it must be kept in mind that the figures for the individual firms were in many instances estimates. As pointed out earlier in the report, the Securities and Exchange Commission, in assembling material for those years, used a somewhat broader definition of the executive group than did the Federal Trade Commission in gathering figures for the earlier years. It was necessary, therefore, to adjust the information obtained for 1934, 1935, and 1936 to make it more nearly comparable with that available for the years 1928–1932. The index numbers showing the change in total compensation of the three highest paid executives, however, are based on actual figures, and consequently are more reliable.

The data regarding the compensation of all executives and of the three highest paid executives fluctuate together for the most part. This serves to show, in the first place, that changes in the number of officers employed had but a minor effect on the total compensation figures; and, in the second place, that the estimated figures for total compensation for 1934, 1935, and 1936 were not far out of line. One important exception should be noted here. The total compensation for all executives in chains rose in 1934, as compared with 1932, while the index for the three highest paid officers was lower in 1934 than in the earlier year; and for 1935 and 1936 the index of compensation for all executives was higher than the index of payments to the three highest paid men. Apparently the rise in the index of total executive payments in the last three years was accompanied by an increase in the number of men considered as officers in those years.

Fluctuation in Executive Compensation and General Pay Roll Compared

Sometimes the question is raised as to whether executives suffered as much from salary reductions during the depression as did employees. It is practically impossible to answer this question fairly. It is probable that the number of executives employed was held at a more stable level than was the number of employees. In so far as dollar pay roll was concerned, there is some evidence that by 1933 execu-

EXHIBIT 28.—FLUCTUATION IN EXECUTIVE COMPENSATION AND TOTAL PAY ROLL FOR DEPARTMENT STORE AND OTHER RETAIL COMPANIES: 1928–1936
(Index numbers; 1929 = 100)

Year	Total executive compensation		Total pay roll	
	15 department store companies[1]	22 department stores with sales of $10,000,000 or more in 1929[2]	74 department stores with sales of $2,000,000 or more in 1930[3]	Retail trade general merchandising[4]
1928	100	*	*	*
1929	100	100	100.0	100.0
1930	96	97	96.0	93.3
1931	96	94	87.8	87.4
1932	88	93	70.8	69.5
1933	*	68	66.8	65.4
1934	82	75	73.0	75.1
1935	80†	77	78.2	78.0
1936	88	77	.....	83.5

* Data not available.

† Revised figure.

[1] Companies reporting to the Federal Trade Commission and to the Securities and Exchange Commission. Medians of relatives for the individual companies.

[2] Companies reporting to the Harvard Bureau of Business Research. Medians of relatives for the individual companies.

[3] Common figures of relatives for the individual companies reporting to the Harvard Bureau of Business Research. The term "common figure" as used by the Bureau denotes a representative figure which has been selected as typical of a series of data after consideration of the median, the interquartile average, and the arithmetic average of the relatives for the individual companies. These common figures are based on data presented by the Harvard Business School, Bureau of Business Research, Bulletin No. 100, *Operating Results of Department and Specialty Stores in 1935*, by Carl N. Schmalz, p. 9. These figures, originally published with 1930 as a base year, have been projected back into 1929 on the basis of the reports of 63 of the 74 firms reporting for 1934.

[4] Source: U.S. Bureau of Labor Statistics, *Monthly Labor Review*, Trend of Employment.

tive pay roll in department stores, at least, had been reduced nearly as much relatively as total store pay roll. In Exhibit 28 are repeated the index numbers of total executive compensation for the 15 department store companies used in this study and for the 22 department store companies reporting to the Harvard Bureau of Business Research. In addition, there are given index numbers prepared by the Bureau for the change in total pay roll expense for a larger group of department stores which had sales of $2,000,000 or more in 1930. A parallel column shows corresponding figures prepared by the Bureau of Labor Statistics for general merchandise firms. These data are included here because they cover a more comprehensive group of retail firms than do the Harvard Bureau of Business Research figures. The remarkable uniformity of the two series suggests that the picture given of change in total pay roll is a reliable one.

It is apparent that reductions were made in total pay roll in 1931 and 1932 which do not seem to be duplicated in the case of the executive compensation figures available. By 1933, however, drastic cuts evidently had been made in payments to executives, and for the years 1933, 1934, and 1935 the indices of executive pay roll and of total pay roll are closely similar.

Executive Bonus Plans

The degree to which bonus payments were made to officers of the 37 retail companies during the years 1928–1932 may be seen from the figures presented in Exhibits 29 and 30.[1] Corresponding data for 100 industrial companies are given for comparison. Both exhibits record by years the number of executives receiving and the number of companies paying their officers salary plus bonus. In addition, the total number of executives employed by the companies yearly is given for reference. In the first of the two exhibits, percentage figures indicate for each year the proportion of the

[1] For a detailed discussion of executive bonus plans, see Chap. IX.

total number of officers receiving and of the total number of companies paying salary plus bonus. In the second exhibit, relatives based on 1929 as 100 are given for each series of data.

EXHIBIT 29.—TOTAL NUMBER OF EXECUTIVES AND NUMBER AND PERCENTAGE RECEIVING BOTH SALARY AND BONUS;[1] NUMBER AND PERCENTAGE OF COMPANIES PAYING BONUSES; 37 RETAIL AND 100 INDUSTRIAL COMPANIES:[2] 1928–1932

Year	Retail executives			Industrial executives			Retail companies			Industrial companies		
	Total No.	Receiving salary and bonus		Total No.	Receiving salary and bonus		Total No.	Paying salary and bonus		Total No.	Paying salary and bonus	
		No.	% of total		No.	% of total		No.	% of total		No.	% of total
1928	289†	125	43.3	941	442	47.0	37‡	22	59.5	100	64	64.0
1929	306	116	37.9	996	503	50.5	37	22	59.5	100	62	62.0
1930	307	109	35.5	995	467	46.9	37	21	56.8	100	56	56.0
1931	299	82	27.4	1,008	300	29.8	37	18	48.6	100	42	42.0
1932	285	66	23.2	986	95	9.6	37	16	43.2	100	26	26.0

† Includes estimated figures for two companies.

‡ For three companies of the 37, reports on bonus policies were not available for the year 1928. Since all three companies reported no bonus payments to executives in the four following years, it has been assumed that they paid no bonuses in 1928.

[1] The bonus figures have been drawn from the material filed with the Federal Trade Commission for "Other Compensation Paid During Year" (see Appendix A, Exhibit 105, p. 257). In order to exclude, in so far as possible, directors' fees which were reported in this category, only those additional payments in excess of $1,000 have been considered as bonuses in arriving at the statistics presented in this exhibit.

[2] One chain, employing between 27 and 30 executives during the five-year period, paid salaries only to four of the officers; to the remaining executives the chain paid no specified salaries but compensation based on a certain percentage of the net earnings of the company. In order to trace changes in the number of companies paying and the number of executives receiving bonuses in addition to a stipulated base salary, this company has been omitted from the comparison. The industrial companies are those used in Chaps. II and III.

According to Exhibit 29, 43.3% or more than two-fifths of the 286 retail executives received extra compensation over and above their salaries in 1928. This percentage dropped continually through the following years until in 1932 it was but 23.2%. Meanwhile the proportion of the retail companies paying bonuses dropped from 59.5% or nearly

three-fifths of the companies in 1928 to 43.2% in 1932. Comparison of the levels of these two sets of percentages suggests either that the companies giving bonuses were also those employing but few officers, or that bonuses were not awarded as a rule to all executives in a company. Examination of the data for the individual firms shows that companies of all sizes used bonus plans. In most instances, however, such bonuses were limited to only a part of the officers listed by the company.

The figures for the number of industrial companies paying bonuses and of officers receiving such additional remuneration reveal that the use of incentive compensation plans was more common in the industrial than in the retail group in 1928 and 1929.

The proportion of industrial officers receiving bonuses, however, dropped to less than 10% in 1932, with only 26% of the companies paying these bonuses.

The relatives in Exhibit 30 facilitate comparison of the changes in the number of firms awarding bonus payments in addition to salary, and in the number of men receiving such payments, over the five-year period 1928–1932. Although the number of retail executives employed declined from 100 in 1929 to 93 in 1932 (relatives), the number of executives receiving a bonus over and above salary fell from 100 in 1929 to 57 in 1932. This decrease, while considerable, was not nearly so pronounced as in the case of industrial executives. The number of industrial officers receiving a bonus stood at 19 in 1932 as compared with 100 in 1929.

The change in the number of retail companies paying a salary plus bonus to one or more of their officers was not so great as the change in the total number of executives receiving such additional compensation. Apparently, during the depression some of the concerns reduced the number of officers receiving both salary and bonus, or some, employing relatively large numbers of executives, discontinued entirely the payment of bonuses. It is not possible to tell from the data available whether the decline in bonus payments

EXHIBIT 30.—FLUCTUATION IN NUMBER OF EXECUTIVES RECEIVING BOTH SALARY AND BONUS[1] AND IN NUMBER OF COMPANIES PAYING BONUSES; 37 RETAIL AND 100 INDUSTRIAL COMPANIES:[2] 1928–1932
(For relatives, 1929 = 100)

Year	Retail executives				Industrial executives				No. of companies paying salary and bonus			
	Total No.		No. receiving salary and bonus		Total No.		No. receiving salary and bonus		Retail		Industrial	
	Actual	Relatives	Actual	Relatives	Actual	Relatives	Actual	Relatives	Actual	Relatives	Actual	Relatives
1928	289†	94	125	108	941	94	442	88	22	100	64	103
1929	306	100	116	100	996	100	503	100	22	100	62	100
1930	307	100	109	94	995	100	467	93	21	95	56	90
1931	299	98	82	71	1,008	101	300	60	18	82	42	68
1932	285	93	66	57	986	99	95	19	16	73	26	42

† Includes estimated figures for two companies.

[1] The bonus figures have been drawn from the material filed with the Federal Trade Commission for "Other Compensation Paid During Year" (see Appendix A, Exhibit 105, p. 257). In order to exclude, in so far as possible, directors' fees which were reported in this category, only those additional payments in excess of $1,000 have been considered as bonuses in arriving at the statistics presented in this exhibit.

[2] One chain, employing between 27 and 30 executives during the five-year period, paid salaries only to four of the officers; to the remaining executives the chain paid no specified salaries but compensation based on a certain percentage of the net earnings of the company. In order to trace changes in the number of companies paying and the number of executives receiving bonuses in addition to a stipulated base salary, this company has been omitted from the comparison. The industrial companies are from the sample of 100 used in Chaps. II and III.

reflects changes in the methods used by the separate companies in paying their officers or whether it registers the automatic reduction or elimination of bonus payments developing from decreases in sales and earnings. Both situations may have existed among the companies studied.

Bonus Payments as a Percentage of Total Executive Compensation

For the period 1928–1932, it was possible to determine for each of the 38 companies the proportion of bonus payments to total executive compensation. The figures in

EXHIBIT 31.—FLUCTUATION IN SALARIES, BONUS PAYMENTS, AND TOTAL EXECUTIVE COMPENSATION FOR 38 RETAIL COMPANIES: 1928–1936
(The percentages given are medians of percentages for individual firms; the index numbers are medians of relatives for individual firms, 1929 = 100)

Items	1928	1929	1930	1931	1932	1933	1934[1]	1935[1]	1936
All 38 companies:									
Bonus payments:									
Percentage of total compensation	14.4	9.9	7.4	1.1	0.0	*	*	*	*
Index numbers:									
Total compensation	98	100	97	94	82	*	84	89	89
Salary	98	100	101	102	92	*	*	*	*
23 chains:									
Bonus payments:									
Percentage of total compensation	29.9	20.1	11.6	8.6	3.6	*	*	*	*
Index numbers:									
Total compensation	98	100	98	93	72	*	91	90	97
Salary	97	100	103	101	89	*	*	*	*
15 department stores:									
Bonus payments:									
Percentage of total compensation	10.4	4.1	0.0	0.0	0.0	*	*	*	*
Index numbers:									
Total compensation	100	100	96	96	88	*	82	80	88
Salary	100	100	100	106	93	*	*	*	*
15 firms with bonus payments amounting to 25% or more of total compensation in 1929:[2]									
Bonus payments:									
Percentage of total compensation	53.4	53.1	52.9	40.5	23.1	*	*	*	*
Index numbers:									
Total compensation	102	100	95	75	49	*	78	77	88
Salary	100	100	106	101	92	*	*	*	*
Bonus payments	109	100	81	56	24	*	*	*	*
20 firms with bonus payments amounting to less than 15% of total compensation in 1929:[2]									
Bonus payments:[3]									
Percentage of total compensation	0.0	0.0	0.0	0.0	0.0	*	*	*	*
Index numbers:									
Total compensation	99	100	100	101	89	*	88	89	94
Salary	99	100	100	103	93	*	*	*	*

* Data not available. Material secured from the Federal Trade Commission covered but nine months of 1933. For 1934, 1935, and 1936 no figures were given for salaries and bonus payments separately.

[1] Revised figures.

[2] Three chains with bonus payments amounting to between 15% and 25% of their total executive compensation have been omitted from this section of the exhibit.

[3] In interpreting the percentages for this item, it is to be remembered that the figures are medians. Of the companies included in this group, approximately two-thirds in 1928 and four-fifths in 1932 paid no bonuses at all. Thus the median for each year is 0.0%. For the six firms in the group paying bonuses in 1928 and 1929 median figures were as follows: 1928, 10.6%; 1929, 8.8%; 1930, 7.4%; 1931, 8.5%; 1932, 6.1%.

1928 ranged from an extreme of 0.0% for firms paying salaries only, to over 80.0% for firms using incentive compensation plans extensively. The median figure in 1928 for all the retail companies was 14.4%. The typical percentage of bonus or incentive compensation payments to total compensation decreased steadily from 1928 to 1932, when 21 of the 38 companies paid no bonuses, the median becoming 0.0%.

This sharp decline in the proportion of bonus to total payments suggested that a study of the relationship of salaries and bonus payments to total compensation might prove to be revealing. Consequently, index numbers of salary and total compensation are presented in Exhibit 31 for all companies; for chains as contrasted with department stores; and for companies paying substantial bonuses in 1929 as compared with firms paying relatively little or nothing as bonuses in that year. For the bonus paying companies an additional index is presented for the change in bonus payments over the period.

From the figures in the exhibit, some of which are reproduced in chart form in Exhibits 32 and 33, the following conclusions may be drawn.

Bonus payments in the early years were substantial for chains, amounting typically to 29.9% and 20.1% of the total executive compensation in 1928 and 1929, respectively. Corresponding figures for department stores were 10.4% and 4.1%. Thus, variations in compensation figures for chains as distinct from department stores reflect to some degree the variations in bonus policies characteristic of these organizations.

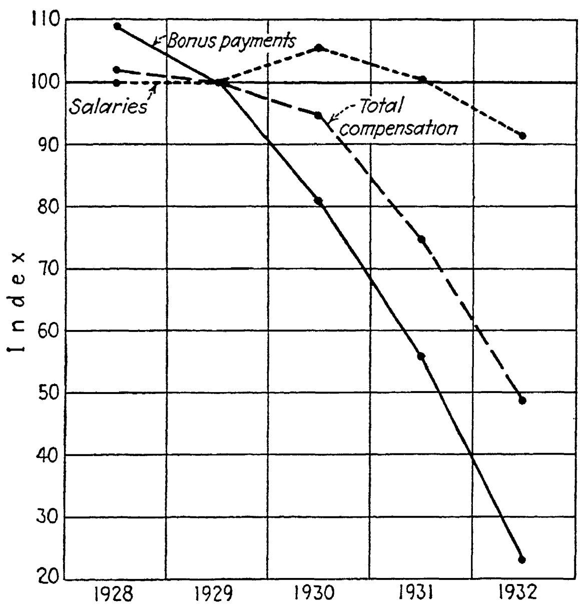
No matter what the classification of the firms, the index numbers for salaries are remarkably similar. Salaries rose slightly from 1928 to 1930 or 1931, but from then on a drop occurred, being most pronounced in 1932.

Total compensation, except in the case of non-bonus paying companies, decreased continually between 1929 and 1932, the largest drop taking place in 1932 when salaries

were drastically reduced. For all companies the total decrease from 1929 to 1932 typically amounted to 18%; for chains, 28%; and for department stores, 12%.

Companies with substantial bonuses in 1929 cut their total compensation more than 50% by 1932, having reduced their bonuses more than 75%. Companies paying little

EXHIBIT 32.—FLUCTUATION IN SALARIES, BONUS PAYMENTS, AND TOTAL EXECUTIVE COMPENSATION FOR 15 RETAIL COMPANIES PAYING SUBSTANTIAL BONUSES IN 1929: 1928–1932
(1929 = 100)



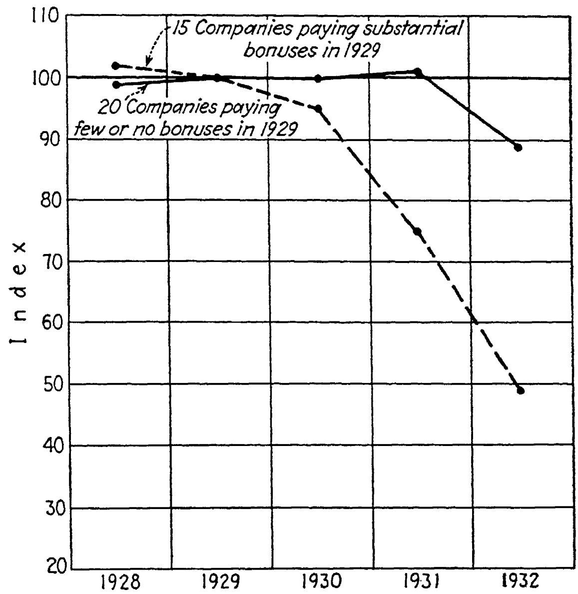
or no bonus money in 1929 reduced their total compensation only 11% by 1932. It should not be inferred, however, that a bonus plan operates chiefly to reduce the incomes of executives in times of low profits to a point below what they otherwise would be. Perhaps the chief influence, conversely, is to raise the incomes of executives in times of high profits, and hence to introduce a high degree of fluctuation but with a net gain, rather than a net loss, to the executives.

These findings correlate closely with those of comparable studies for industrial firms.[1]

Compensation Practices of Individual Companies

Detailed figures of various kinds for the 38 separate companies are presented in Exhibits 34 and 35. The information recorded in these tabulations constitutes much

EXHIBIT 33.—FLUCTUATION IN TOTAL EXECUTIVE COMPENSATION OF 35 RETAIL COMPANIES: 1928–1932
(1928 = 100)



of the material from which the summary median figures have been derived. It is offered here for the benefit of those readers who may want to appraise individual firm operation or to classify and study the figures according to groupings different from those used by the author. There is value, also, in knowing within what limits the figures for certain items vary. Throughout this analysis repeated

[1] See Chap. II.

use has been made of the median average. The student may wish to interpret these median figures in relation to the series of data from which they have been drawn.

In Exhibit 34 are presented, for the years 1928 through 1936, the relatives for the compensation of the three highest

EXHIBIT 34.—FLUCTUATION IN COMPENSATION OF THE THREE HIGHEST PAID EXECUTIVES IN EACH OF 38 RETAIL COMPANIES: 1928–1936
(Relatives; 1929 = 100)

Company	1928	1929	1930	1931	1932	1933	1934	1935	1936
Department store companies:									
Abraham & Straus, Inc.	124	100	100	122	97	*	94	97	109
Arnold, Constable Corporation	65	100	100	66	67	*	54	54	55
Associated Dry Goods Corporation	100	100	80	56	43	*	39	45	56
Best & Co., Inc.	87	100	101	85	52	*	96	109	99
Bloomingdale Bros., Inc.	97	100	124	120	109	*	122	139	150
The Fair	101	100	111	111	104	*	80	80	81
Wm. Filene's Sons Company	117	100	100	100	89	*	80	80	80
Franklin Simon & Co., Inc.	108	100	92	87	87	*	56	56	50
Gimbel Brothers, Inc.	98	100	105	104	81	*	91	121	127
Kaufmann Department Stores, Inc.	100	100	100	96	90	*	81	104	116
R. H. Macy & Co., Inc.	100	100	100	99	92	*	67	61	67
Marshall Field & Company	100	100	129	162	130	*	130	144	171
The May Department Stores Company	99	100	66	53	38	*	67	66	83
Oppenheim, Collins & Co., Inc.	*	100	92	83	61	*	*	40	*
The Outlet Company	153	100	126	126	118	*	101	102	112
Median relatives	100	100	100	99	89	*	80†	80	91
Chain store companies:									
Davega Stores Corporation	*	100	134	150	107	*	98	101	128
First National Stores Inc.	100	100	117	128	132	*	96	93	93§
The Grand Union Company	56	100	104	132	125	*	102	102	102
W. T. Grant Company	97	100	61	60	44	*	69	83	89
Jewel Tea Co., Inc.	81	100	109	74	58	*	69	80	85
G. R. Kinney Co., Inc.	93	100	96	81	49	*	73	73	73
S. S. Kresge Company	101	100	93	53	31	*	50	51	55
S. H. Kress & Co.	96	100	100	87	78	*	91	*	95
The Kroger Grocery & Baking Company	71	100	75	387	89	*	124	*	*
McCrory Stores Corporation	120	100	116	231	254	*	*	*	*
McLellan Stores Company	86	100	77	85	93	*	68	86	94
Montgomery Ward & Co., Incorporated	105	100	73	43	28	*	26	26	35
National Tea Co.	107	100	82	65	62	*	46	46	37
Neisner Brothers, Inc.	97	100	99	99	98	*	99	123	137
J. J. Newberry Co.	113	100	90	85	77	*	*	126	172
J. C. Penney Company	104	100	77	85	57	*	132	*	160
Peoples Drug Stores, Incorporated	140	100	102	103	95	*	99	110	110
Safeway Stores, Incorporated	60	100	108	103	121	*	120	118	66
Schulte Retail Stores Corporation	101	100	43	41	41	*	39	44	*
Sears, Roebuck and Co.	205	100	96	70	37	*	41	38	42
Frank G. Shattuck Company	*	100	102	102	85	*	78	77	84
Walgreen Co.	106	100	95	95	86	*	72	*	76
F. W. Woolworth Co.	104	100	93	85	76	*	44	45	38
Median relatives	101	100	96	85	78	*	76†	83‡	87
Median relatives for entire group of retail companies	100	100	100	91	86	*	80†	82‡	87
Number of companies reporting data	35	38	38	38	38	..	35†	33‡	34

* Data not available.

† An estimated figure for one department store company and one chain store company was included in arriving at the median figures for 1934.

‡ An estimated figure for one of the six chains for which data were not available has been included in arriving at the median figures for 1935.

§ Part of the total compensation going to the three highest paid executives was in common stock upon which no dollar valuation was set.

paid executives in each of the 38 retail firms. The firms are listed alphabetically in two general groups, department store and chain. Index numbers, determined for both groups and for the total number of companies, have already been introduced in Exhibit 27 (page 58).

Statistics given in Exhibit 35 include executive compensation for 1929 expressed as percentages both of earnings and of sales, earnings as a percentage of sales in 1929, the number of executives employed in 1929, and the relatives for total executive compensation over the period studied. The companies are listed according to the percentage of executive compensation to earnings in 1929.

Substantial changes would occur in the ranking of companies in Exhibit 35 if the basis were the percentage of sales rather than of earnings going to executives. In ranking the 38 companies as indicated, there was no thought of making an invidious comparison between those companies paying their officers a high and those paying a low percentage of earnings. The differences in the percentages for the individual companies result, in part, from other factors than differences in dollar compensation payments. To mention several important factors, dollar earnings, used as a base in the percentages, varied considerably among the companies; differences in company organization may have required varying numbers of executives; and in certain companies a majority of the stock was owned by the executives, who may have taken part of their compensation in the form of dividends. In still other companies the share of earnings going to executives may have been too low; so low indeed that the ablest men for such positions may not have been attracted to them or, if attracted, not permanently retained by the company. This method of arraying the firms was employed simply to indicate a condition, not to suggest either a vice or a virtue.

The median average percentage of earnings paid by retail firms for executive compensation in 1929, according to Exhibit 35, was approximately 7.7%. Deficits (using

EXHIBIT 35.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS[1] AND SALES; EARNINGS AS A PERCENTAGE OF SALES; NUMBER OF EXECUTIVES: 1929; FLUCTUATION IN EXECUTIVE COMPENSATION: 1928–1936;[2] FOR EACH OF 38 RETAIL COMPANIES

(Companies are ranked according to the percentage of earnings paid to executives in 1929)

Company	Executive compensation in 1929		Earnings in 1929	Number of executives in 1929	Fluctuation in executive compensation (relatives; 1929 = 100)								
	% of earnings	% of sales	% of sales		1928	1929	1930	1931	1932	1933	1934[2]	1935[2]	1936[2]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Marshall Field & Company	1.3	0.1	5.7	8	100	100	177	236	167	*	188	211	249
Safeway Stores, Incorporated	2.4	0.1	3.0	5	52	100	106	101	116	*	134	139	61
J. C. Penney Company	2.5	0.2	6.1	11	110	100	60	65	45	*	115	106	153
Sears, Roebuck and Co	2.5	0.2	7.6	10	281	100	104	77	47	*	*	*	*
McCrory Stores Corporation	2.8	0.2	7.0	8	114	100	137	216	220	*	*	*	131
The Kroger Grocery & Baking Company	2.8	0.1	2.1	9	66	100	86	300	69	*	93	*	*
Walgreen Co	3.5	0.3	7.0	5	99	100	*	135	119	*	146	*	137
Neisner Brothers, Inc	4.3	0.4	8.5	3	97	100	99	99	98	*	118	153	182
Frank G. Shattuck Company[3]	4.3	0.6	13.7	7	*	100	103	103	82	*	89	90	97
S. H. Kress & Co	4.4	0.4	8.9	10	97	100	100	93	72	*	100	90	87
R. H. Macy & Co., Inc	4.7	0.3	7.5	4	98	100	100	104	97	*	88	78	91
J. J. Newberry Co	5.4	0.4	6.5	8	105	100	98	93	84	*	122	137	188
S. S. Kresge Company	6.2	0.6	10.4	9	102	100	92	62	32	*	59	58	63
Montgomery Ward & Co., Incorporated	6.2	0.3	5.4	8	100	100	77	50	40	*	33	40	50
Davega Stores Corporation	6.7	0.5	8.0	7	*	100	142	157	114	*	106	109	146
First National Stores Inc	7.4	0.4	4.8	20	74	100	93	95	88	*	70	72	79
F. W. Woolworth Co.[4]	7.4	0.9	12.7	30	98	100	87	75	60	*	*	*	*
The Grand Union Company	7.6	0.2	3.0	6	57	100	105	126	118	*	98	99	127
The Outlet Company	7.7	0.8	10.0	4	107	100	92	107	98	*	88	88	82
National Tea Co	8.4	0.3	3.3	5	95	100	85	59	57	*	44	44	47
McLellan Stores Company	8.6	0.4	4.6	8	87	100	83	76	81	*	55	79	114

Peoples Drug Stores, Incorporated	8.8	0.6	6.3	5	143	100	102	102	95	*	114	129	139
W. T. Grant Company	9.1	0.5	5.2	8	98	100	44	44	32	*	56	70	69
Kaufmann Department Stores, Inc	10.2	0.7	7.0	8	99	100	99	96	90	*	82	95	116
The Fair	11.5	0.7	6.5	9	92	100	108	97	86	*	76	69	72
The May Department Stores Company	11.7	0.7	6.2	11	105	100	75	56	37	*	73	74	88
Oppenheim, Collins & Co., Inc	12.4	1.1	9.0	7	*	100	79	82	67	*	*	39	58
Associated Dry Goods Corporation	12.9	*	*	12	94	100	89	56	40	*	31	37	53
Jewel Tea Co., Inc	13.3	1.5	11.6	9	82	100	109	83	65	*	83	97	117
G. R. Kinney Co., Inc	13.6	0.7	5.1	12	96	100	88	77	50	*	75	90	85
Abraham & Straus, Inc	16.1	0.9	5.4	4	137	100	100	117	95	*	99	100	154
Gimbel Brothers, Inc	16.3	0.5	3.0	16	128	100	96	80	72	*	76	86	103
Best & Co., Inc.[3]	18.6	2.0	10.8	7	90	100	95	83	49	*	84	97	90
Wm. Filene's Sons Company	23.5	1.5	6.4	11	118	100	95	96	89	*	87	80	85
Schulte Retail Stores Corporation[3]	28.4	*	*	11	104	100	59	46	44	*	45	45	42
Bloomingdale Bros., Inc	29.9	1.0	3.2	8	90	100	129	122	111	*	138	153	168
Franklin Simon & Co., Inc.[3]	33.5	*	*	8	105	100	116	107	88	*	81	54	49
Arnold, Constable Corporation	....	1.1	*Loss 3.3*	5	68	100	95	61	64	*	54	54	55
Median:													
Total group	7.7	0.5	6.4	8	98	100	97†	94	82	*	84‡	89	89
Department stores	12.7	0.8	6.4	8	100	100	96	96	88	*	82‡	80	88
Chain stores	6.2	0.4	6.4	8	98	100	98†	93	72	*	91	90	97

* Data not available.

† In arriving at this median, an estimate was included for Walgreen Co.

‡ In arriving at this median, an estimate was included for Oppenheim, Collins & Co., Inc.

1 Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

2 Figures for 1928–1932 were based on data furnished by individual companies to the Federal Trade Commission while those for 1934, 1935, and 1936 were based on figures reported to the Securities and Exchange Commission. In some instances, it appeared desirable to adjust the figures for 1934, 1935, and 1936 in order to make them more nearly comparable with those available for the earlier years. Several of the compensation figures for 1934, 1935, and 1936, therefore, are estimates. It proved advisable in some cases to revise or eliminate certain figures previously published, in the light of more recently available data.

3 Interest figures were not available for this company for 1929. The earnings figure, therefore, in this instance is after rather than prior to interest charges. The earnings figure given in column 3, consequently, is relatively low and the percentage in column 1 expressed in relation to earnings is somewhat overstated.

4 The earnings figure for F. W. Woolworth Co. includes dividends from foreign subsidiaries.

earnings as herein defined) appeared in 1929 for one retail company which consequently has been excluded from this particular comparison.

The median percentage for executive compensation to sales for 1929 was 0.5, with an extreme range among the various companies from 0.1% to 2.0% of sales. The range for department stores for 1929 was from 0.1% to 2.0%, and for chain stores from 0.1% to 1.5%. The median percentages compare closely with those appearing in Exhibit 25 (page 51) for both retail and industrial companies. From the standpoint of the consumer's dollar, executive compensation in most companies is not an important item.

Although companies are ranked on a basis of the percentage of executive compensation to earnings (column 1), this percentage does not necessarily indicate the efficiency of management. In Exhibit 35, column 3, figures for earnings as a percentage of sales for 1929 afford a better measure of efficient operation. The median for 1929 was 6.4%, with the figures ranging from a deficit of 3.3% to earnings of 13.7% of sales.

A significant part of Exhibit 35, columns 5 to 13, illustrates for the separate companies the trend of total executive compensation in dollars as related to executive compensation in 1929, the base year. While the median figures given at the foot of this exhibit and presented in earlier exhibits disclose general tendencies, the figures for the individual companies show the efforts made by the various concerns to control their salary expense. For example, although the average index of executive compensation fell to 82 by 1932, only 18% below 1929, nearly one-fourth of the companies had slashed total executive compensation more than 50% by that time. On the other hand, seven companies had higher compensation in 1932 than in 1929.

Further consideration will be given in the following chapter to the practices of retail companies in paying executives. At the end of Chapter V appear conclusions for the entire study of executive payments by retail companies.

CHAPTER V

EXECUTIVE COMPENSATION, EARNINGS, AND DIVIDENDS IN RETAIL COMPANIES: 1928–1936[1]

In the previous chapter appear the results of studies of the relationship between executive compensation and sales and year-to-year fluctuation in dollar payments to executives in a group of retail companies. In this chapter, based on the same retail companies, appear the results of studies of the following problems: What share of earnings usually was distributed to executives? How did dollar payments to executives compare with dividend disbursements to stockholders? Did any relationship exist between stock ownership and dividends? Did any relationship exist between stock ownership and earnings? Which group of companies, chains or department stores, paid the highest dollar salaries? Was there any relationship between earnings and payments to executives?

An introduction to this aspect of the compensation problem exists in the percentages presented in Exhibit 35 (pages 72–73) for executive compensation to earnings in 1929. The use of the earnings figure as a base for computing percentages is open to as much criticism as the use of the sales figure, if year-to-year comparisons are to be made for the years 1928–1936. Indeed, company earnings fluctuated more widely than did sales during this period, and annual percentages based on such variable figures would differ markedly among the group of companies studied. For each of the 38 retail companies, therefore, executive compensation, balance available for dividends,[2] and dividend pay-

[1] See footnote 1, p. 45.

[2] Balance available for dividends, as used in this study, consists of earnings as defined, minus executive compensation and interest.

EXHIBIT 36.—EXECUTIVE COMPENSATION, BALANCE AVAILABLE FOR DIVIDENDS, AND DIVIDENDS AS A PERCENTAGE OF EARNINGS:[1] 1929, 1936, AND 1928–1936 COMBINED; INDEX NUMBERS: 1928–1936; FOR 38 RETAIL COMPANIES CLASSIFIED BY TYPE
(Median figures)

Items	% of earnings	Index numbers; 1929 = 100									% of earnings	
	1929	1928	1929	1930	1931	1932	1933	1934[2]	1935[2]	1936	1936	1928–1936 combined[3]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
All companies:												
Executive compensation	7.7	98	100	97	94	82	*	84	89	89	11.9	11.7†
Balance available for dividends	89.1	93	100	69	46	28	46	53	66	86	84.8	86.0
Earnings	100.0	94	100	75	54	35	*	66	68	83	100.0	100.0
Total dividends	41.0	86	100	99	95	64	35	62	67	144	65.7	53.3
23 chains:												
Executive compensation	6.2	98	100	98	93	72	*	91	90	97	6.8	7.4†
Balance available for dividends	92.4	91	100	70	63	44	55	72	74	92	91.3	90.9
Earnings	100.0	89	100	75	69	47	*	72	73	89	100.0	100.0
Total dividends	39.0	76	100	102	99	85	62	88	88	155	62.4	51.7
15 department stores:												
Executive compensation	12.7	100	100	96	96	88	*	82	80	88	14.2	19.5†
Balance available for dividends	81.4	98	100	67	34	4	28	38	42	61	71.3	65.1
Earnings	100.0	97	100	74	39	10	*	47	50	62	100.0	100.0
Total dividends	49.6	97	100	98	86	31	28	45	57	114	71.8	57.6

* Data not available.

† Complete data on executive compensation were not available for 1933. In order that a nine-year average might be secured for executive compensation and for earnings before executive compensation and interest, estimates of compensation based on the amounts paid in 1932 have been included for each company.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest. Balance available for dividends is defined as earnings minus executive compensation and interest.

[2] Revised figures.

[3] Figures for the entire nine-year period were not available for all the companies. Figures for one chain and one department store had to be omitted entirely in preparing the nine-year averages. Figures were included in the nine-year averages, however, for two chains for a five-year period, for one chain for a seven-year period, and for two chains and one department store for an eight-year period. Wherever possible, estimates were included in securing the index numbers. For one department store no usable relative figures were available except for executive compensation.

ments were computed in relation to earnings for only 1929, 1936, and the entire period 1928–1936 combined.

In order to trace year-to-year changes in earnings and dividend payments over the entire period, relatives with 1929 as the base were computed for each company, and medians were prepared for all the retail companies as a group, for department store companies, and for chains. These medians, together with medians for the relative proportions of earnings going to executive compensation and dividends in 1929, 1936, and the nine years combined, are given in Exhibit 36.

From the median figures for all retail companies given in the first column of the exhibit, it is evident that a fairly small proportion, 7.7% of earnings prior to executive compensation and interest, was paid to officers in 1929. After interest and executive compensation expense had been met, 89.1% of earnings was left for dividend payments, less than half this figure, or 41.0% of earnings, commonly being distributed as dividends. It is significant to compare these 1929 percentages with those for 1936, as shown in column 11. In the latter year, executives and stockholders received substantially larger percentages of earnings than in 1929.

The period 1929–1932 was characterized by a marked and fairly uniform year-to-year decline in total earnings. According to the index numbers in Exhibit 36, these earnings in 1932 amounted to about one-third of the 1929 earnings figure. No comparable data for 1933 are available, since the information secured from the Federal Trade Commission on executive compensation, an essential figure in calculating earnings prior to executive compensation, covered but nine months of that year. Published figures[1]

[1] Harvard Business School, Bureau of Business Research, Bulletin No. 100, *Operating Results of Department and Specialty Stores in 1935*, by Carl N. Schmalz, p. 9; Bulletin No. 103, *Expenses and Profits of Limited Price Variety Chains in 1935*, by Stanley F. Teele, pp. 10, 11; Bulletin No. 101, *Operating Results of Department Store Chains and Department Store Ownership Groups: 1929, 1931–1934*, by Stanley F. Teele, p. 11; Bulletin No. 99, *Expenses and Profits of Food Chains in 1934*, by Carl N. Schmalz, pp. 39, 41.

for department stores, variety chains, and department store chains, however, indicate that earnings for these firms in 1933 were more favorable in general than in 1932. From the rather meager data available for food chains, on the other hand, this did not appear to be true. It seems reasonable to assume, nevertheless, that for the 38 retail companies as a group, the index of total earnings for 1933 would have been no lower than for 1932, and it probably was higher. Rapid increases in commodity prices in 1933 gave many retailers a chance to sell merchandise at a higher mark-up than usual, an advantage which would have been reflected in improved earnings. By 1935 dollar earnings commonly amounted to approximately two-thirds, and by 1936 to more than four-fifths, of the 1929 earnings.

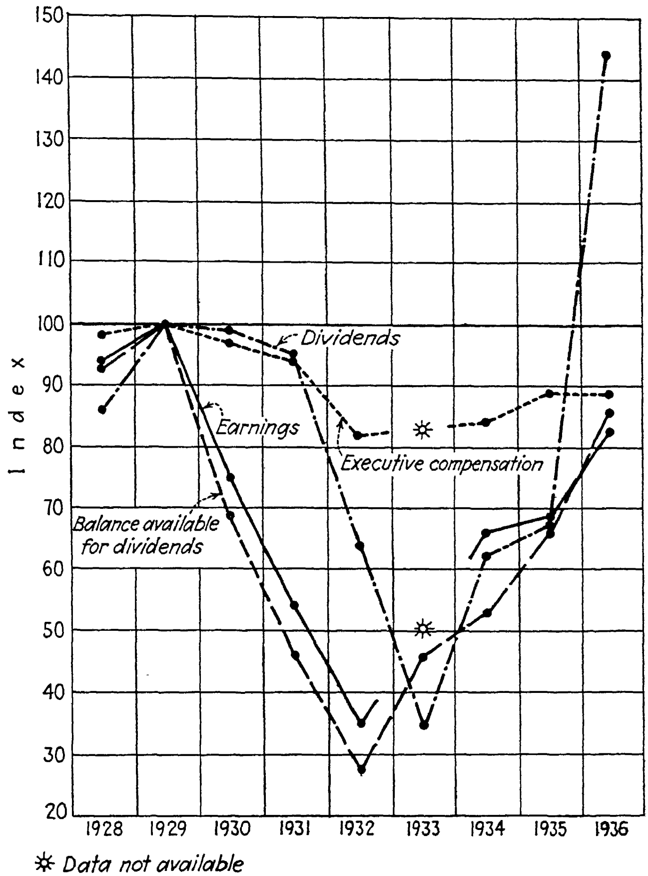
The other index numbers given in Exhibit 36 show to what degree executive compensation and dividend payments were made to conform to the reduced dollar earnings during the depression. From the data in this and in previous exhibits, one can conclude that executive compensation in dollars typically remained at about the same level in the three years 1928, 1929, and 1930; that it dropped 6% below the 1929 figure by 1931; and by 1932 was 18% below the 1929 peak. In contrast to this relatively moderate drop was the decline in earnings, which by 1932 was 65% below the 1929 figure. Therefore, although payments to executives typically were reduced during the depression, these dollar payments were usually much more stable than were the earnings.

Since executive compensation fluctuated less than earnings, the balance available for dividends tended to fluctuate more widely than either figure. In 1930 the balance available was 31% below the high level in 1929, and by 1932 it was 72% below.

Dividend payments, however, were maintained at a fairly uniform amount for the years 1929 through 1931, not dropping until 1932 when a level 36% below that for 1929 was typical. In 1933 the index of dividend payments

stood 65% below 1929. Firms apparently did not reduce dividends until profits were extremely low or until actual deficits were incurred. In 1935 the index numbers for

EXHIBIT 37.—FLUCTUATION IN EXECUTIVE COMPENSATION, BALANCE AVAILABLE FOR DIVIDENDS, DIVIDENDS, AND EARNINGS FOR 38 RETAIL COMPANIES: 1928–1936[1]



[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest. Balance available for dividends is defined as earnings minus executive compensation and interest.

earnings, balance available for dividends, and dividends paid were similar. From 1935 to 1936 increases occurred in all three items, with dividend payments more than

doubling. The several index numbers for all 38 companies given in Exhibit 36 are presented graphically in Exhibit 37.

The trend in the various items for the period 1928–1936 is reflected also in the averages in the last column of Exhibit 36. Since executive compensation ordinarily was not decreased proportionately as earnings diminished, it is not surprising to find that for the nine years, considered as one period, executive compensation required a larger part of the earnings than was typical for the single year 1929, 11.7% as compared with 7.7%. One further comparison is of interest. Both in the year 1929 and over the entire nine-year period, executives received about one-fifth as much in total remuneration as stockholders received in dividends.

Chain Store Companies

Chain store companies, as illustrated in the second section of Exhibit 36, typically disbursed 6.2% of their earnings in 1929 for executive compensation and between six and seven times this amount for dividends. The dividend payments, however, amounting to 39.0% of earnings, accounted for less than half the balance available for dividends.

During the period studied, dollar earnings prior to executive compensation and interest fluctuated less widely for chains than did the earnings for the 38 retail companies as a group. The low point in the earnings index for chain store companies occurred in 1932. In the absence of comparable data for 1933, it is estimated that earnings for that year were higher than in 1932. Clearly the balance available for dividends after paying salaries, extra compensation, and interest was greater in 1933 than in the preceding year. Since for chains the balance available for dividends for the entire period amounted to approximately 90% of earnings, it is reasonable to suppose that a noticeable increase in the balance available for dividends in 1933 would imply improved total earnings in that year. By 1934 and 1935 chain store earnings typically amounted to about

three-fourths, and by 1936 to nearly nine-tenths, of the 1929 earnings.

As noted in the discussion of Exhibit 31 (page 66), chains reduced their dollar payments to executives to a greater degree than did the department stores. At the same time, chain store earnings fluctuated less widely than did those for other retail companies. It is not surprising, therefore, to find the average chain store percentage figures for executive compensation over the period 1928–1936 varying less from the 1929 figures than was true for the total group in the first section of Exhibit 36. Executive compensation for the nine-year period typically required 7.4% of the total earnings, while for the single year 1929 it absorbed 6.2%. The balance available for dividends was 90.9% of earnings for the longer period, as compared with 92.4% for the one year, 1929.

Larger differences between the 1929 figures and those for the nine years as a whole are shown in the dividend figures. Here the median percentage increased from 39.0% of earnings in 1929 to 51.7% for the nine years accumulated. Chains, as a rule, did not reduce their dollar dividend payments substantially until 1933, when dividends amounted to 62% of the 1929 payments. Then, in 1934 and 1935, dividend disbursements were increased to 88% and in 1936 to 155% of the 1929 amounts. For the nine-year period, dividend payments accounted for 56.9% of the balance available for dividends and for 51.7% of total earnings. The chain organizations were "plowing back" distinctly more of their earnings than were the other retailers studied.

Department Store Companies

Department store companies spent 12.7% of their 1929 earnings for executive compensation and 49.6% for dividends. Considering the nine years 1928–1936 as one period, payments to executives typically required almost 20% of the earnings, while slightly more than 57% of earn-

ings was distributed in dividend payments. The relatively high average percentage figure for remuneration of executives reflects, first, the severe decline in dollar earnings experienced by department stores, and second, the high level of executive compensation in dollars maintained through 1932.

Earnings for department stores dropped at a sharp and uniform rate from 1929 until 1932, when they hit a low point at 10% of the 1929 earnings. The following years saw improvement, and in 1934 and 1935 dollar earnings amounted to about 50% of earnings in 1929. In 1936 they were slightly less than two-thirds of those in 1929. This performance may be contrasted with chain earnings, which by 1935 were back to a level equivalent to 73% of that achieved in 1929, and by 1936 to 89%. The more satisfactory dollar earnings achieved by the chains accompanied a better sales record. Chains, a comparatively new type of retail enterprise, were still expanding during 1929 and 1930, and the continued opening of new stores made it possible to hold aggregate dollar sales and earnings at a fairly even level during the depression. Department stores, on the other hand, were not expanding. Their big growth had occurred somewhat earlier. The fact that department stores apparently were in a period of expanding demand during the years immediately following the War probably aided them materially in coming through the depression of 1921 without severe difficulty.

As was pointed out in discussing Exhibit 31 (page 66), department stores as well as chains used incentive compensation plans, but the bonuses given by department store companies were not so important a part of the total executive payments as they were in the case of chain store companies. For this added reason, executive compensation expense in department stores was less flexible in the face of declining earnings than it was in the chains.

Since relatively larger proportions of earnings went into executive compensation as earnings declined, the balance

available for dividends among the 15 companies dropped more sharply than did the dollar earnings. Dividend payments were cut drastically in 1932 and were reduced still further in 1933 to a level 72% below that of 1929. Even with these curtailments, dividends over the period as a whole amounted typically to 57.6% of earnings prior to executive compensation and interest, while the balance available for dividends was 65.1% of the earnings. On the average, as shown later in Exhibit 38 (pages 84–85), dividend payments were kept well within the limits imposed by the balance available for dividends. It is of interest to note that for the period 1928–1936, executive compensation was equivalent to about one-third of the dividend payments in the case of the department stores, while in the case of the chains payments to executives were only about one-seventh as large.

Individual Companies

Detailed figures, many of which were used in arriving at the medians for Exhibit 36, are presented for the 38 individual retail companies in Exhibit 38. The firms are listed according to the percentage of earnings paid to executives for the nine-year period, 1928–1936.

In addition to executive compensation and dividend percentages, Exhibit 38 includes data on interest payments in relation to earnings. The interest item is one for which it was somewhat difficult to secure comparable data. Firms occasionally published a net interest figure only, while a few others listed no expense for the interest account as distinct from other operating expenses. Still other companies, particularly chains, apparently incurred no expense on borrowed capital.

The primary object in tabulating interest figures was to obtain a means of adjusting the earnings figures so that earnings for firms operating to varying extents on borrowed capital could be compared more intelligently with earnings for companies operating wholly on their own capital. The

EXHIBIT 38.—EXECUTIVE COMPENSATION,[1] INTEREST, BALANCE AVAILABLE FOR DIVIDENDS, AND TOTAL DIVIDENDS AS A PERCENTAGE OF EARNINGS;[2] AVERAGE ANNUAL SALES; EARNINGS AND EXECUTIVE COMPENSATION AS A PERCENTAGE OF SALES: 1928–1936 COMBINED; PERCENTAGE OF VOTING STOCK OWNED BY MANAGEMENT NEAR THE END OF 1934; FOR EACH OF 38 RETAIL COMPANIES

(Companies ranked according to percentage of earnings paid to executives)

Company[3]	Executive compensation, % of earnings (1)	Interest, % of earnings (2)	Balance available for dividends % of earnings (3)	Total dividends, % of earnings (4)	Average annual sales (unit = $1,000,000) (5)	Earnings, % of sales (6)	Executive compensation % of sales (7)	% of voting stock owned by management near the end of 1934[4] (8)
J. C. Penney Company	2.3	*	97.7	72.4	$198.2	6.3	0.1	11
Safeway Stores, Incorporated	3.4	4.9	91.7	66.0	235.1	2.0	0.1	2
S. H. Kress & Co.	4.5	0.2	95.3	34.1	71.2	7.6	0.3	82
The Kroger Grocery & Baking Company	4.7†	*	95.3†	47.2†	235.3	1.8†	0.1†	2
Walgreen Co.	4.9‡	0.5‡	94.6‡	32.5‡	49.9‡	5.0‡	0.3‡	23
J. J. Newberry Co.	5.3	14.3	80.4	38.0	34.5	5.9	0.3	56
Sears, Roebuck and Co.	5.5§	*	94.5§	59.9§	347.9	5.2§	0.3§	18
S. S. Kresge Company	5.5	7.7	86.8	53.6	141.9	8.7	0.5	39
W. T. Grant Company	5.6	2.9	91.5	38.1	77.3	4.4	0.2	64
F. W. Woolworth Co.[5]	6.6§	*	93.4§	73.3§	277.0	12.8§	0.8§	15
Montgomery Ward & Co., Incorporated	7.0	*	93.0	85.6	244.1	3.1	0.2	2
R. H. Macy & Co., Inc.	7.2	14.1	78.7	53.3	121.3	5.2	0.4	32
First National Stores, Inc.	7.4	0.2	92.4	52.3	106.4	4.1	0.3	4
Neisner Brothers, Inc.	7.4	22.3	70.3	31.3	15.9	5.4	0.4	57
Marshall Field & Company	8.3	40.5	51.2	95.8	121.9	2.4	0.2	49
Frank G. Shattuck Company[6]	8.8	*	91.2	68.0	19.6	8.1	0.7	36
McLellan Stores Company	9.6‡	*	90.4‡	30.2‡	21.1‡	4.0‡	0.4‡	47
Peoples Drug Stores, Incorporated	10.3	*	89.7	41.6	16.7	5.8	0.6	34
The Outlet Company	11.7	0.1	88.2	65.9	8.9	8.2	1.0	66
National Tea Co.	12.4	*	87.6	51.1	73.0	1.8	0.2	26
The Grand Union Company	12.8	*	87.2	57.1	31.9	2.2	0.3	6
The May Department Stores Company	13.4	*	86.6	66.5	93.4	4.7	0.6	15
Jewel Tea Co., Inc.	14.0	*	86.0	68.4	16.0	10.3	1.4	13
Kaufmann Department Stores, Inc.	15.7	12.7	71.6	57.6	22.2	5.5	0.9	65
Associated Dry Goods Corporation	16.0	19.0	65.0	85.2	(49.3)‖	*	*	11
Abraham & Straus, Inc.	19.1	16.6	64.3	29.6	22.9	5.7	1.1	89
Best & Co., Inc[6]	19.5	*	80.5	41.8	13.3	9.2	1.8	1
Gimbel Brothers, Inc.	27.3	83.7	*Loss 11.0*	37.5	95.2	2.1	0.6	27

Oppenheim, Collins & Co., Inc.	28.1‡	0.0‡	71.9‡	77.6‡	12.9‡	4.4‡	1.2‡	50
The Fair	28.2	*	71.8	84.4	21.2	3.2	0.9	65
Davega Stores Corporation	28.2‡	0.5‡	71.3‡	45.1‡	11.4‡	4.2‡	1.2‡	85
Wm. Filene's Sons Company	32.4	3.7	63.9	37.6	36.9	5.6	1.8	99
G. R. Kinney Co., Inc.	33.2	46.8	20.0	*	15.3	2.3	0.8	26
Bloomingdale Bros., Inc.	38.9	0.9	60.2	37.5	22.3	3.4	1.3	94
Arnold, Constable Corporation	65.1	*	34.9	31.1	8.9	1.5	1.0	34
Schulte Retail Stores Corporation[6]	89.6	69.3	*Loss 58.9*	*	27.9¶	1.0	0.9	51
Franklin Simon & Co., Inc.[6]	260.0	*	*Loss 160.0*	301.2	(10.0)‖	*	*	100
McCrory Stores Corporation	*	*	*	*	42.4§	*	*	*
Median:								
Total group	11.7	.....	86.0	53.3	35.7	4.7	0.6	34
Department stores	19.5	.....	65.1	57.6	22.3	4.7	1.0	50
Chain stores	7.4	.....	90.9	51.7	49.9	4.7	0.3	26

* Data not available.
† Seven-year average.
‡ Eight-year average.
§ Average for first five years.
‖ Average for 1933–1936, not considered in arriving at the median figures.
¶ Sales figure for 1929 estimated.

1 Complete data on executive compensation were not available for 1933. In order that a nine-year average might be secured for executive compensation and for earnings before executive compensation and interest, estimates of compensation based on the amounts paid in 1932 have been included for each company.

2 Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest. Balance available for dividends is defined as earnings minus executive compensation and interest.

3 During the nine-year period covered by this exhibit, several mergers or consolidations occurred not only in the chain store but in the department store field. The published annual income statements used in preparing this exhibit in such cases reflect the operations of a changing number of stores.

4 The percentage of voting stock is based on the number of common or common and preferred shares outstanding which carried the voting right. It was not always possible to determine the exact number of such shares owned by management. The figures here presented should be regarded as suggestive rather than as definite. Information concerning the number of voting shares owned by management was requested by the Securities and Exchange Commission for the year 1934 only.

5 The earnings figure for F. W. Woolworth Co. includes dividends from foreign subsidiaries.

6 Interest figures were not available for this company for all the years studied. The earnings figure given in column 6, therefore, is relatively low; and the figures in columns 1, 3, and 4 expressed in relation to earnings are somewhat overstated.

very need for making the adjustment is evidence of important differences in policy among the companies. Any medians based on interest data would be misleading; consequently such averages have been omitted. The interest percentages for the various companies, however, are included in Exhibit 38 in order that as complete data as possible for each firm may be available for study.

As a rough measure of the operating efficiency of the different companies, figures are included for earnings in relation to sales. Earnings for the entire period ranged from 1.0% to 12.8% of sales, centering about a median figure of 4.7%, nearly 2% lower than was typical during the single year 1929, as shown in Exhibit 35 (pages 72–73). Department stores and chains showed the same percentage of earnings to sales for the nine years combined. Similarly, earnings in relation to sales for chains and department store companies were approximately the same in 1929, although the level was higher than for the nine-year period.

It is possible from the information afforded by Exhibit 38 to compare company dividend disbursements with the amounts available for dividends and with the payments to executives. For example, six companies, approximately 16% of the entire group, paid out more in dividends over the period than they had available from earnings, and at least two companies paid more to executives than to stockholders. In one of these latter companies, however, 94% of the voting stock was owned by the management, as indicated in the final column of the exhibit.

The Significance of Stock Ownership in the Payment of Dividends and Executive Compensation

All 38 retail companies whose figures were available for this study were corporations listed on the New York Stock Exchange, with varying proportions of their voting stock owned by management and by the general public. It was thought desirable as a part of this study to ascertain, in so far as possible, the percentage of voting stock controlled by

management in the separate companies and to discover if this factor had a perceptible effect on earnings, on executive compensation, and on dividends. The Securities and Exchange Commission requested information concerning the number of voting shares owned by management as of 1934. The wording of the commission's request for data, however, was somewhat vague, and consequently the exactness of much of the material furnished is questionable.[1] The figures reported on stock ownership by management were compared with the total amounts of voting stock issued by the companies as shown in their published statements, and percentages were computed. These percentage figures may be found in column 8 of Exhibit 38.

It is at once clear from these figures that the extent of stock ownership by executives varied widely among companies. For six concerns as little as 6% or less of the total voting stock was held by officers. On the other hand, in six other companies 80% or more of the stock was management controlled. When the figures for all the retail companies were tabulated, the median was 34% for management-owned stock. This figure stands in contrast to a median of 8.10% found for the group of 107 industrial firms studied previously.[2] Department store executives typically owned larger proportions of voting stock than did chain store officers; the median figure for department store companies was 50% and for chains 26%.

Since there were wide variations among the companies in the relative amounts of stock held by management, the next step was to compare executive compensation and dividend payments for companies in which large proportions

[1] In certain companies the error in the figures may be quite large. For example, it was not always clear how stock owned by retired officers or beneficiaries of former officers should be classified. In some instances, such stock was known to be held by company directors or officers. Where such stock was reported, it was considered as management owned.

[2] Gordon, R. A., "Stockholdings of Officers and Directors in American Industrial Corporations," *Quarterly Journal of Economics*, August, 1936, p. 632.

EXHIBIT 39.—EXECUTIVE COMPENSATION AND TOTAL DIVIDENDS AS A PERCENTAGE OF EARNINGS[1] FOR EACH OF 26 RETAIL COMPANIES CLASSIFIED ACCORDING TO THE PERCENTAGE OF VOTING STOCK OWNED BY MANAGEMENT NEAR THE END OF 1934: 1929, AND 1928–1936 COMBINED[2]

(Companies ranked according to percentage of earnings paid to executives, 1928–1936 combined)

Groups of companies	Executive compensation: % of earnings, 1929	Executive compensation: % of earnings, 1928–1936 combined	Executive compensation: 1936 relatives (1929 = 100)	Total dividends: % of earnings, 1929	Total dividends: % of earnings, 1928–1936 combined	Total dividends: 1936 relatives (1929 = 100)	% of voting stock owned by management near the end of 1934[3]
Companies in which management owned less than 20 % of the voting stock near the end of 1934:							
J. C. Penney Company	2.5	2.3	153	46.4	72.4	303	11
Safeway Stores, Incorporated	2.4	3.4	61	33.1	66.0	100	2
The Kroger Grocery & Baking Co.	2.8	4.7†	*	29.3	47.2†	194	2
Sears, Roebuck and Co	2.5	5.5§	*	35.4	59.9§	279	18
F. W. Woolworth Co	7.4	6.6§	*	60.8	73.3§	100	15
Montgomery Ward & Co., Inc	6.2	7.0	50	82.8	85.6	163	2
First National Stores Inc	7.4	7.4	79	38.0	52.3	155	4
The Grand Union Company	7.6	12.8	127	44.1	57.1	37	6
The May Department Stores Co.	11.7	13.4	88	58.4	66.5	106	15
Jewel Tea Co., Inc	13.3	14.0	117	63.0	68.4	144	13
Associated Dry Goods Corp	12.9	16.0	53	63.1	85.2	...	11
Best & Co., Inc	18.6	19.5	90	32.2	41.8	167	1
Median figures	7.4	7.2	88	45.3	66.3	155	9
Companies in which management owned 50 % or more of the voting stock near the end of 1934:							
S. H. Kress & Co	4.4	4.5	87	16.9	34.1	439	82
J. J. Newberry Co	5.4	5.3	188	43.0	38.0	154	56
W. T. Grant Company	9.1	5.6	69	20.5	38.1	410	64
Neisner Brothers, Inc	4.3	7.4	182	12.8	31.3	344	57
The Outlet Company	7.7	11.7	82	49.4	65.9	109	66
Kaufmann Department Stores, Inc	10.2	15.7	116	49.7	57.6	146	65
Abraham & Straus, Inc	16.1	19.1	154	19.1	29.6	211	89
Oppenheim, Collins & Co., Inc	12.4	28.1‡	58	55.2	77.6‡	0	50
The Fair	11.5	28.2	72	61.9	84.4	21	65
Davega Stores Corporation	6.7	28.2‡	146	26.8	45.1‡	62	85
Wm. Filene's Sons Company	23.5	32.4	85	17.8	37.6	228	99
Bloomingdale Bros., Inc	29.9	38.9	168	28.9	37.5	233	94
Schulte Retail Stores Corp.[4]	28.4	89.6	42	116.5	*	*	51
Franklin Simon & Co., Inc.[4]	33.5	260.0	49	77.0	301.2	20	100
Median figures	10.9	23.6	86	36.0	38.1	154	66

* Data not available. † Seven-year average. ‡ Eight-year average.

§ Average for first five years.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] Figures for 1928–1932 were based on data furnished by individual companies to the Federal Trade Commission, while those for 1934, 1935, and 1936 were based on figures reported to the Securities and Exchange Commission. In some instances it appeared desirable to adjust the figures for 1934, 1935, and 1936 in order to make them more nearly comparable with those available for the earlier years. Several of the compensation figures for 1934, 1935, and 1936, therefore, are estimates. It proved advisable in some cases to revise or eliminate certain figures previously published in the light of more recently available data.

[3] The percentage of voting stock is based on the number of common or common and preferred shares outstanding which carried the voting right. It was not always possible to determine the exact number of such shares owned by management. The figures here presented should be regarded as suggestive rather than as definite.

[4] Interest figures were not available for this company for all the years studied. Had it been possible to secure adequate interest figures, the earnings before executive compensation and interest would have been larger and the percentages for executive compensation and dividends to earnings would have been somewhat lower.

of the stock were owned by management with similar payments by companies in which small amounts of stock were so owned. The companies were classified in three groups: the first included 12 companies with management owning less than 20% of the stock; the second group included 11 companies with management owning from 20% to 50% of the stock; and the third included 14 companies with management owning 50% or more of the stock. The first and third groups, made up respectively of firms with definitely small and large percentages of stock owned by executives, were selected for study. In Exhibit 39 executive compensation and total dividends computed as percentages of earnings for the year 1929 and for the 1928–1936 period are presented for the 26 firms in these two groups, the companies in each group being ranked according to the percentage of executive compensation to earnings for the nine years combined. Relatives indicating the amounts paid for executive compensation and dividends in 1936 as compared with amounts paid for these same items in 1929 are listed.

The median figure for the percentage of voting stock owned by management was 9% for companies in the first group and 66%, or approximately seven times as much, for those in the last group. Three-fourths of the companies with less than 20% of the stock held by management were chains, while only three-sevenths of those with management holding large blocks of voting stock were enterprises of that type.

The companies in the first group, in which management owned less than 20% of the voting stock, in the nine years 1928–1936 typically paid 7.2% of their accumulated earnings to executives. Companies with a majority of the stock held by officers, on the other hand, paid 23.6% of earnings to executives during that period. The pronounced difference displayed by the companies in the two groups for the nine years combined is startling until one recalls the characteristically low percentages for chains, which

predominate in the first group. Exhibit 40, showing the individual figures subdivided by type of enterprise, will illustrate the dangers of interpreting the material in Exhibit 39 incorrectly.

EXHIBIT 40.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS[1] FOR EACH OF 26 RETAIL COMPANIES CLASSIFIED ACCORDING TO PERCENTAGE OF VOTING STOCK OWNED BY MANAGEMENT NEAR THE END OF 1934:[2] 1928–1936 COMBINED

Companies in which management owned less than 20% of voting stock near the end of 1934		Companies in which management owned 50% or more of voting stock near the end of 1934	
Department stores	Chains	Department stores	Chains
Figures for individual firms			
13.4%	2.3%	11.7%	4.5%
16.0	3.4	15.7	5.3
19.5	4.7†	19.1	5.6
	5.5§	28.1‡	7.4
	6.6§	28.2	28.2‡
	7.0	32.4	89.6
	7.4	38.9	
	12.8	260.0	
	14.0		
Median figures			
16.0	6.6	28.2	6.5

† Seven-year average.
‡ Eight-year average.
§ Average for first five years.
[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.
[2] The percentage of voting stock is based on the number of common or common and preferred shares outstanding which carried the voting right. It was not always possible to determine the exact number of such shares owned by management. Information concerning the number of shares owned by management was requested by the Securities and Exchange Commission for the year 1934 only.

The samples in Exhibit 40 are small and the medians are to be regarded merely as suggestive. It seems evident, however, that the type of retail enterprise rather than the percentage of stock owned by management is the governing factor.

Exhibit 41, showing the percentage of earnings distributed in dividends, on the other hand, indicates that the type

of organization is not the important factor in the case of this item. Clearly companies with less than 20% of their stock owned by management tended to pay out more of their earnings in dividends than did the concerns with 50% or more of their stock so owned.

EXHIBIT 41.—TOTAL DIVIDENDS AS A PERCENTAGE OF EARNINGS[1] FOR EACH OF 26 RETAIL COMPANIES CLASSIFIED ACCORDING TO PERCENTAGE OF VOTING STOCK OWNED BY MANAGEMENT NEAR THE END OF 1934:[2] 1928–1936 COMBINED

Companies in which management owned less than 20% of voting stock near the end of 1934		Companies in which management owned 50% or more of voting stock near the end of 1934	
Department stores	Chains	Department stores	Chains
	Figures for individual firms		
41.8%	47.2%†	29.6%	31.3%
66.5	52.3	37.5	34.1
85.2	57.1	37.6	38.0
	59.9§	57.6	38.1
	66.0	65.9	45.1‡
	68.4	77.6‡	*
	72.4	84.4	
	73.3§	301.2	
	85.6		
	Median figures		
66.5	66.0	61.8	38.0

* Information on payment of dividends was not available for 1935 and 1936.

† Seven-year average.

‡ Eight-year average.

§ Average for first five years.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] The percentage of voting stock is based on the number of common or common and preferred shares outstanding which carried the voting right. It was not always possible to determine the exact number of such shares owned by management. Information concerning the number of shares owned by management was requested by the Securities and Exchange Commission for the year 1934 only.

It is of interest to compare the figures for 1929 in Exhibit 39 with those for the nine years 1928–1936. Firms with small amounts of stock owned by management typically paid 7.4% of their earnings to executives in the single year and 7.2% in the nine-year period as a whole. Companies

with a majority of the stock owned by management paid 10.9% of their earnings to officers in 1929 and 23.6%, or twice as large a proportion, over the longer period. These figures reflect to some degree the relatively heavy reduction in earnings of the department stores which predominate in the second group.

A different conclusion results in the case of dividend payments. Companies with most of their stock held by the general public typically paid dividends amounting to 45.3% of their earnings prior to interest and executive compensation in 1929, while for the nine-year period they paid out 66.3% in dividends. Companies with a majority of stock owned by the management, on the other hand, paid out 36.0% in 1929 and 38.1% on the average for the nine-year period. The relatives for dividend payments indicate clearly that dividends in dollars in 1936 were greater than in 1929 by about the same amount in both groups. This shows definitely the effect of current tax laws.

Earnings Classified According to the Extent of Stock Ownership by Management

Economists and business men have discussed at length the possible effect of diffusion of stock ownership on corporate earnings. Do executives having substantial interests in their companies secure more satisfactory returns than executives with little or no such investments? It might seem on first thought that the best measure for testing such earnings performance would be the rate of return on invested capital. Investment in retail companies, however, may vary materially with the firm's real estate policy. Many department stores, for example, own all the real estate used in the business while few chains follow that policy. Also, the investment in accounts receivable is very different for the two types of organization. The difficulties encountered in interpreting the financial figures for the relatively few firms in the sample led to the decision not to compute the relation of earnings to invest-

ment. In its stead the rates of earnings on sales, already presented in earlier exhibits in the study, have been classified according to the percentage of stock owned by management.

Exhibit 42 gives figures for 1929 earnings in relation to sales for retail companies with less than 20% of the voting stock owned by management, for companies with 20% to 50% so controlled, and for those with 50% or more of the stock owned by management. In each of these three groups, the companies are listed according to percentage of earnings to sales. The corresponding figures for the years 1928–1936 combined appear in Exhibit 43. With the medians varying from 5.7% to 6.8% of sales, the earnings figures for the single year 1929 reveal a surprising similarity among the three groups. The firms with the highest percentages of voting stock owned by management appear to have a slight advantage over the firms in the two other groups, both for 1929 and for the nine years 1928–1936 combined. Because of the slight differences between the median earnings percentages for the group of companies with little of the stock controlled by management and the companies with large blocks of stock so owned, it seems reasonable to conclude that for the 37 retail firms considered large holdings of stock were not necessarily accompanied by high earnings.

Executive Compensation in Dollars

Thus far in this study the payment of executive officers of retail companies has been viewed in relation to sales and to earnings. Index numbers and relatives indicating the year-to-year variation in dollar expenditure for such compensation have been presented and discussed. There remains to be considered the actual amounts in dollars paid to executives. For this special study the pre-depression year 1929 and the more recent years 1934 and 1936 were selected.

For 1929 sufficiently detailed data were available to enable tabulation for each company of the dollar payments

EXHIBIT 42.—EARNINGS[1] AS A PERCENTAGE OF SALES FOR EACH OF 37 RETAIL COMPANIES CLASSIFIED ACCORDING TO THE PERCENTAGE OF VOTING STOCK OWNED BY MANAGEMENT NEAR THE END OF 1934:[2] 1929

Companies in which management owned less than 20% of voting stock near the end of 1934	Earnings, % of sales	Companies in which management owned 20% to 50% of voting stock near the end of 1934	Earnings, % of sales	Companies in which management owned more than 50% of voting stock near the end of 1934	Earnings, % of sales
The Kroger Grocery & Baking Company	2.1	Arnold, Constable Corporation	*Loss 3.3*	Bloomingdale Bros., Inc.	3.2
The Grand Union Company	3.0	Gimbel Brothers, Inc.	3.0	W. T. Grant Company	5.2
Safeway Stores, Incorporated	3.0	National Tea Co.	3.3	Abraham & Straus, Inc.	5.4
First National Stores Inc.	4.8	McLellan Stores Company	4.6	Wm. Filene's Sons Company	6.4
Montgomery Ward & Co., Inc.	5.4	G. R. Kinney Co., Inc.	5.1	The Fair	6.5
J. C. Penney Company	6.1	Marshall Field & Company	5.7	J. J. Newberry Co.	6.5
The May Department Stores Company	6.2	Peoples Drug Stores, Inc.	6.3	Kaufmann Department Stores, Inc.	7.0
Sears, Roebuck and Co.	7.6	Walgreen Co.	7.0	Davega Stores Corporation	8.0
Best & Co., Inc.[3]	10.8	R. H. Macy & Co., Inc.	7.5	Neisner Brothers, Inc.	8.5
Jewel Tea Co., Inc.	11.6	S. S. Kresge Company	10.4	S. H. Kress & Co.	8.9
F. W. Woolworth Co.[4]	12.7	Frank G. Shattuck Company[3]	13.7	Oppenheim, Collins & Co., Inc.	9.0
Associated Dry Goods Corp.	*			The Outlet Company	10.0
				Schulte Retail Stores Corp.	*
				Franklin Simon & Co., Inc.	*
Median figures	6.1		5.7		6.8

* Data not available.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] The percentage of stock owned by the management in 1934 was not available for one company. This is based on the number of common or common and preferred shares outstanding which carried the voting right. Information on the number of shares owned by management was requested by the Securities and Exchange Commission for the year 1934 only.

[3] Interest figures were not available for this company in 1929. Had it been possible to secure interest figures, the earnings percentage would have been somewhat higher.

[4] Earnings for F. W. Woolworth Co. include dividends from foreign subsidiaries.

EXHIBIT 43.—EARNINGS[1] AS A PERCENTAGE OF SALES FOR EACH OF 37 RETAIL COMPANIES CLASSIFIED ACCORDING TO THE PERCENTAGE OF VOTING STOCK OWNED BY MANAGEMENT NEAR THE END OF 1934:[2] 1928–1936 COMBINED

Companies in which management owned less than 20 % of voting stock near the end of 1934	Earnings % of sales	Companies in which management owned 20 % to 50 % of voting stock near the end of 1934	Earnings, % of sales	Companies in which management owned more than 50 % of voting stock near the end of 1934	Earnings % of sales
The Kroger Grocery & Baking Company	1.8†	Arnold, Constable Corporation	1.5	Schulte Retail Stores Corp.[3]	1.0
Safeway Stores, Incorporated	2.0	National Tea Co	1.8	The Fair	3 2
The Grand Union Company	2.2	Gimbel Brothers, Inc	2.1	Bloomingdale Bros., Inc	3.4
Montgomery Ward & Co., Inc.	3.1	G. R. Kinney Co., Inc	2.3	Davega Stores Corporation	4.2‡
First National Stores Inc	4.1	Marshall Field & Company	2.4	W. T. Grant Company	4.4
The May Department Stores Company	4.7	McLellan Stores Company	4.0‡	Oppenheim, Collins & Co., Inc.	4.4‡
Sears, Roebuck and Co	5.2§	Walgreen Co	5.0‡	Neisner Brothers, Inc	5.4
J. C. Penney Company	6.3	R. H. Macy & Co., Inc	5.2	Kaufmann Department Stores, Inc	5.5
Best & Co., Inc.[3]	9.2	Peoples Drug Stores, Inc	5.8	Wm. Filene's Sons Company	5.6
Jewel Tea Co., Inc	10.3	Frank G. Shattuck Company[3]	8.1	Abraham & Straus, Inc	5.7
F. W. Woolworth Co.[4]	12.8§	S. S. Kresge Company	8.7	J. J. Newberry Co	5.9
Associated Dry Goods Corp	*			S. H. Kress & Co	7.6
				The Outlet Company	8.2
				Franklin Simon & Co., Inc	*
Median figures	4.7		4.0		5.4

* Data not available.

† Seven-year average.

‡ Eight-year average.

§ Average for first five years.

1 Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

2 The percentage of stock owned by management in 1934 was not available for one company. This is based on the number of common or common and preferred shares outstanding which carried the voting right. Information on the number of shares owned by management was requested by the Securities and Exchange Commission for the year 1934 only.

3 Interest figures were not available for this company for all the years studied. Had it been possible to secure adequate interest figures, the earnings percentage would have been somewhat higher.

4 Earnings for F. W. Woolworth Co. include dividends from foreign subsidiaries.

to the highest paid, the second highest paid, and the third highest paid executive. Two other figures were also tabulated: the average compensation paid to the remaining company officers; and a general figure indicating the average payment per executive, all company executives being grouped together. Corresponding data for the three highest paid men were assembled for the years 1934 and 1936. Since the total executive payments in 1934 and 1936, as noted previously, were in many cases estimates, it was decided not to attempt to present figures for the two other items covered for 1929.

Median dollar figures indicating the compensation typically paid to executives of department store companies, of chains, and of all retail companies are given in Exhibit 44. For comparison, similar data are included for more than 100 industrial companies. Percentage figures emphasize the spread between the amounts paid typically to the highest paid, the second highest paid, and the third highest paid executive.

According to the median figures in Exhibit 44, the highest paid department store officer on the average received $76,000 in 1929; corresponding figures for chain and industrial executives in that year were $52,000 and $55,000, respectively.[1] For all 38 retail companies grouped together, the figure was $64,000. Thus the typical compensation of the highest paid executives in retail companies in 1929 was almost $10,000 higher than compensation typically paid to corresponding executives of industrial companies. This difference, however, resulted almost entirely from the relatively high payments to department store executives.

For all retail companies, the compensation of the second highest paid executive was approximately two-thirds that

[1] It is to be remembered that these compensation figures represent cash payments only. No consideration has been given to additional remuneration in the form of warrants or options to purchase stock in the company. Certain of the firms, particularly the chains, granted such warrants or options to officers.

EXHIBIT 44.—TYPICAL COMPENSATION OF THE THREE HIGHEST PAID EXECUTIVES IN RETAIL AND INDUSTRIAL COMPANIES: 1929, 1934, AND 1936

Ranking of executives in individual companies	Retail companies[1]						Industrial companies[1]	
	Department store companies		Chain store companies		Total			
	Median amount (unit = $1,000)	% of median compensation of highest paid executive	Median amount (unit = $1,000)	% of median compensation of highest paid executive	Median amount (unit = $1,000)	% of median compensation of highest paid executive	Median amount (unit = $1,000)	% of median compensation of highest paid executive
1929								
Number of companies	15	...	23	...	38	...	149	
Highest paid executive	$76	100	$52	100	$64	100	$55	100
Second highest paid executive	50	66	32	62	43	67	35	64
Third highest paid executive	37	49	25	48	31	48	25	45
All other executives[2] (averaged)	15	20	12	23	14	22	13	24
Total executives[2] (averaged)	37	49	23	44	29	45	22	40
1934								
Number of companies	14	...	20	...	34	...	123	
Highest paid executive	$61	100	$43	100	$58	100	$40	100
Second highest paid executive	43	70	24	56	30	52	25	63
Third highest paid executive	39	64	21	49	28	48	20	50
1936								
Number of companies	14	...	20	...	34			
Highest paid executive	$77	100	$41	100	$60	100		
Second highest paid executive	60	78	28	68	35	58		
Third highest paid executive	44	57	23†	56	33†	55		

† The third highest paid man in each of two chain store companies in 1936 was not an executive as defined for this study.

[1] The companies studied were of various sizes. The industrial companies were selected from the 450 industrial firms listed on the New York Stock Exchange, including the sample of 100 used in Chaps. II and III. The median figures for sales volume for the retail companies used were as follows: department store companies, $27,740,000 in 1929, $21,038,000 in 1934, and $24,608,000 in 1936; chain store companies, $46,623,000 in 1929, $58,222,000 in 1934, and $62,135,000 in 1936. Sales figures were available for but a few of the industrial companies; hence, typical sales volume figures could not be prepared.

[2] It was not considered feasible to prepare median figures for these items for 1934 and 1936, since the total dollar amounts paid to executives in those years were in several cases estimated for use in the study and in many instances the total number of executives employed was not clearly stated.

of the highest paid, while the third highest paid executive received about one-half the compensation of the highest paid. The spread between the compensation rates of executives in the retail trade and in industry, however, was as great relatively among these lower ranks as for top-rank men.

In 1934 the dollar figures, as might be expected, were notably lower than they were in 1929. The highest paid department store executive typically received $61,000, while the corresponding men in chains and industrial concerns were paid $43,000 and $40,000, respectively. The second and third highest paid officers of department store companies in 1934 received approximately two-thirds as much as the highest paid executive. In chains and in industrial firms the second highest paid man in 1934 received less than two-thirds of the compensation of the highest paid, and the third highest paid executive received approximately half the amount paid to the man with highest dollar compensation. For both 1929 and 1934, the differences between the typical payments to department store executives and to industrial executives were substantial, department store men being the more highly paid. Rates of compensation were almost the same in the chain field and in industry.

In 1936 notable changes again occurred in these payments. Department store companies were paying their highest paid officer slightly more than in 1929 and their second and third highest paid man substantially more than in that year. Chain store companies, on the other hand, were paying all three of their highest paid officers below 1929 levels and showed little change in these payments from 1934.

When interpreting the data in this exhibit, it must be remembered that no allowance has been made for size of company. Figures given in the footnote to the exhibit indicate that in all three years the chain store companies realized larger sales volumes than did the department

store companies. Sales figures were available for too few of the industrial concerns to make it possible to establish typical sales figures for them. Among retail firms, it appears that type rather than size of business is the dominant factor in establishing compensation levels.

In order to test whether or not size of company within a single type of business influenced the dollar compensation of

EXHIBIT 45.—TYPICAL COMPENSATION OF THE THREE HIGHEST PAID EXECUTIVES IN RETAIL AND INDUSTRIAL COMPANIES, CLASSIFIED ACCORDING TO SIZE OF COMPANY:[1] 1934 AND 1936

Ranking of executive in individual companies	Type of company	Small companies			Large companies			Total companies		
		No. of companies	Median amount (unit = $1,000)		No. of companies	Median amount (unit = $1,000)		No. of companies	Median amount (unit = $1,000)	
			1934	1936		1934	1936		1934	1936
Highest paid executive	Retail:									
	Department store	6	$48	$47	8	$69	$82	14	$61	$77
	Chain	9	36	36	11	60	60	20	43	41
	Total	..	...	....	..	...	....	34	58	60
	Industrial	20	27	....	17	76	....	123	40	
Second highest paid executive	Retail:									
	Department store	6	30	30	8	59	73	14	43	60
	Chain	9	19	21	11	40	40	20	24	28
	Total	..	...	....	..	...	....	34	30	35
	Industrial	20	17	....	17	51	....	123	25	
Third highest paid executive	Retail:									
	Department store	6	23	25	8	53	68	14	39	44
	Chain	9	13	16†	11	38	40†	20	21	23†
	Total	..	...	....	..	...	....	34	28	33†
	Industrial	20	14	....	17	32	....	123	20	

† The third highest paid man in each of two chain store companies in 1936 was not an executive as defined for this study.

[1] The industrial companies were selected from the 450 industrial firms listed on the New York Stock Exchange, including the sample of 100 used in Chaps. II and III. The bases used in classifying the companies by size differed in the various groups of companies as follows: small department stores, those with sales less than $20,000,000 in 1934; large department stores, those with sales of $20,000,000 or more in 1934; small chains, those with sales less than $50,000,000 in 1934; large chains, those with sales of $50,000,000 or more in 1934; small industrial companies, those with assets less than $27,517,000 in 1929; large industrial companies, those with assets of $27,517,000 or more in 1929. At the time of writing, it was possible to classify only 37 of the 123 industrial companies by size.

executives, both department store companies and chain companies were classified in two size groups according to sales volume, and median figures for dollar compensation in 1934 and 1936 were prepared. These figures, based to be sure on very small samples, are given in Exhibit 45. Although few sales figures were published for industrial firms, asset figures were available for many of them. The executive compensation data for these companies, therefore, have been classified by size of company as indicated by asset values in 1929.[1]

Study of the rather meager data in Exhibit 45 reveals that for chains, department store companies, and industrial companies dollar payments to the three highest paid executives typically were higher for large than for small companies. The most pronounced differences are evident in the case of the industrial concerns where big companies paid their top executives nearly three times as much as did the smaller companies.

The median figures in Exhibits 44 and 45 indicate the typical dollar compensation of executives. Rather sharply defined differences appear, however, in the figures reported by individual companies. Certain companies pay one officer a high salary as contrasted with payments made to the other senior men. For example, the president of one company received $150,000 in 1929, $60,000 as a cash salary and $90,000 as a bonus. The difference between his salary and that of any of the other senior men was very substantial, the next highest salary being only one-third the president's total compensation. Another rather definite policy is for all top men to receive the same amount with no differential appearing until the fifth or sixth man. One company in 1929 paid each of its top men $67,000 and in addition a bonus of $50,000, making a total of $117,000.

[1] The asset value classification based on 1929 figures was used in preparing the data for industrial firms summarized earlier in Exhibit 25 (p. 51) of this report. It is believed that little change would have occurred in the grouping had the asset figures for 1934 or 1936 been used in classifying the company figures for use in this exhibit.

A third policy, followed by a large number of companies, is to have a small spread in the amounts of total compensation paid to the top four or five men. A typical company paid a vice president $52,000, the president $40,000, and its other three top men salaries slightly below $40,000. In other instances, the top men received either a substantial bonus with no fixed cash salary, or a moderate salary with bonuses at the end of the year. Study of the material submitted by the various companies disclosed no clear-cut standardization in the method of paying executives.

The change in dollar payments to the three highest paid executives from 1934 to 1936 is another significant part of Exhibit 45. Chain stores and small department stores show little change in such payments. A substantial increase, however, occurred among the large department stores.

Effect of Executive Compensation on Earnings

The question is frequently asked whether companies which pay executives relatively large salaries secure more satisfactory earnings than companies which pay their officers smaller amounts. A definite answer to this question, of course, is impossible; but rough tests have been made to determine whether high executive compensation accompanied high percentages of earnings.

For this comparison, the individual company compensation and earnings figures expressed as percentages of sales were used, the data for department store companies and for chains being treated separately. Two charts accordingly were prepared for each year, correlating earnings and executive compensation percentages for chains and for department store firms. Four of these charts,[1] covering the years 1929 and 1932, are presented in Exhibit 46. In these charts, each dot represents executive compensation

[1] Sales data were available for all but three of the 38 companies in the years 1929 and 1932. Hence the charts are based on the figures of 22 chains and 13 department store companies.

EXHIBIT 46.—CORRELATION OF EXECUTIVE COMPENSATION AND EARNINGS[1] AS A PERCENTAGE OF SALES FOR CHAIN AND DEPARTMENT STORE COMPANIES: 1929 AND 1932

Chart 1.—Chain Stores, 1929

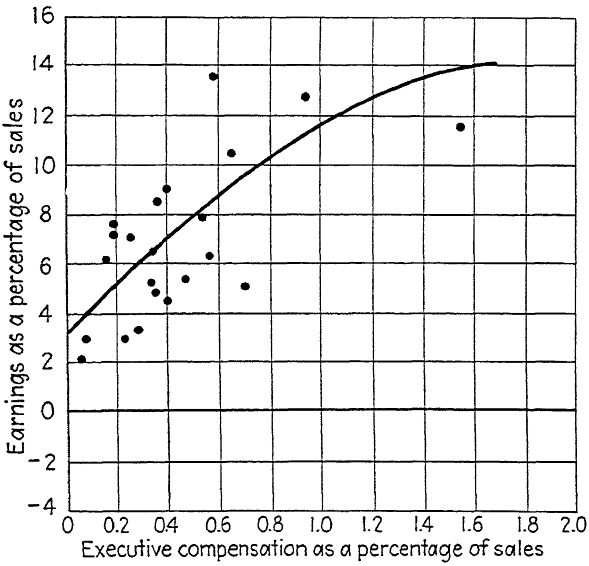


Chart 2.—Department Stores, 1929

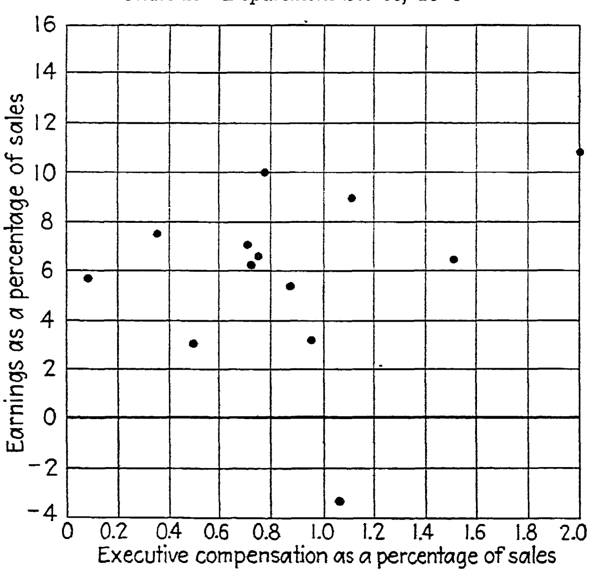


Chart 3.—Chain Stores, 1932

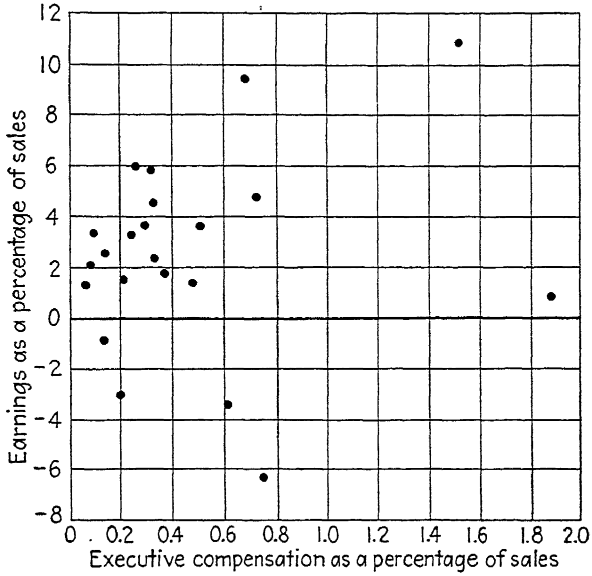
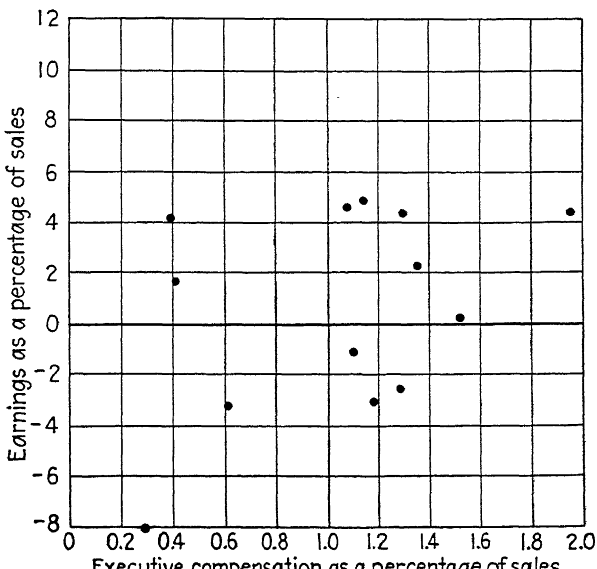


Chart 4.—Department Stores, 1932



[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

and earnings percentages of one firm in one year. The distance of a dot from the left-hand vertical edge of the chart indicates the percentage of compensation, while the distance from the horizontal or base line measures the percentage of earnings.

Chart 1, for the year 1929, reveals a tendency among chain store companies for total executive compensation percentages to be relatively high for the firms with high rates of earnings. For department stores in 1929, however, as is shown in Chart 2, no clear relationship between the two percentages exists; and indeed, the department store charts for the following years, of which only one, Chart 4, is reproduced here, show no correlation between executive compensation figures and earnings. In interpreting these figures, it must be remembered that bonus payments made up substantially more of the total executive compensation in the case of chains than in the case of department stores, a fact which may account, at least in part, for the pattern shown in Chart 1. Evidence of the apparent influence of the bonus method of compensating executives was found also in the charts (not shown here) covering the years 1930 and 1931 for chains. In those years there was some tendency for high payments to officers to accompany high rates of earnings. It is probable that this finding does not reflect the rewarding of men for superior achievements so much as it displays the flexible nature of bonus plans in a period of retrenchment.

By 1932 many companies which in earlier years had awarded bonuses were paying little or no extra compensation. In Exhibit 46, Chart 3, covering the 22 chains for which sales figures were available for that year, there is evidence of no correlation between executive payments and earnings rates, nor do the 1934 or 1936 data for chains show any tendency for the two figures to vary together.

To eliminate the effect of bonus payments from the test, figures for seven chains and five department store companies not using incentive compensation plans were examined. These figures are incorporated in Exhibit 47.

For the very small sample of chain stores it appears that firms with high earnings percentages in 1929 paid relatively high percentages of sales for executive compensation.

EXHIBIT 47.—EXECUTIVE COMPENSATION AND EARNINGS[1] AS PERCENTAGES OF SALES FOR 12 RETAIL COMPANIES PAYING SALARIES ONLY: 1929 AND 1932

(Companies ranked according to percentage of earnings to sales in 1929 and in 1932, respectively)

1929		1932	
Earnings, % of sales	Executive compensation, % of sales	Earnings, % of sales	Executive compensation, % of sales
Chains			
3.0	0.2	0.9	1.9
4.8	0.4	1.9	0.4
7.0	0.3	2.3	0.3
8.0	0.5	3.8	0.3
8.5	0.4	4.5	0.3
8.9	0.4	4.8	0.7
13.7	0.6	5.8	0.3
Department store companies			
Loss 3.3	1.1	*Loss 3.2*	0.6
3.0	0.5	*Loss 2.5*	1.3
5.4	0.9	0.4	1.5
9.0	1.1	4.6	1.1
10.0	0.8	4.7	1.1

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

The same was not true of department stores in that year, nor for either type of firm in 1932, the worst year of the depression.

Conclusion

From the statistical material available, it has been possible in Chapters IV and V to trace the course of payments to executives from a period of high prices and extreme business activity through a period of low prices and depression to the years of improving business.

The dollar amounts paid annually to executives varied widely among the 38 retail companies studied. In general, the compensation paid by chains was lower than that paid

by department stores. In 1936, for example, the highest paid executive in a department store typically received $77,000 while the highest paid chain executive received $41,000. Within each of the two retail groups, chain and department store, the larger firms usually paid higher amounts to their officers than did the smaller companies. A comparison of the compensation of the three highest paid men per company in the retail field with corresponding data for industrial companies disclosed that, with the exception of the highest paid officers in the large industrial companies, the compensation levels in department store companies appeared to exceed those in industrial firms. The amounts paid by chains typically resembled more closely those paid by industrial firms than those paid by department store companies.

From the consumer's standpoint, the outlay for executive compensation in most retail stores is relatively unimportant. For the years 1928–1936, on the average but 1.0 cent of the consumer's dollar went for executive compensation in department stores and only 0.3 cent in chain stores.

The use of incentive compensation plans in paying executives was common in 1928 and 1929. In 1929, 15 chains and 8 department stores of the 38 firms studied had such plans. Among the chain store firms, bonus payments typically constituted a larger proportion of the total compensation in 1929 than among department store companies.

During the depression years bonus payments were cut severely. Fifteen department store and chain companies having bonus payments amounting to 25% or more of the total executive compensation in 1929, lowered these payments more than 75% by 1932, the rate of reduction in bonuses being fairly uniform over the years 1930, 1931, and 1932. Total dollar compensation for these firms by 1932 typically was reduced to about half of the amount paid in 1929, some reduction being made in salaries in addition to the cuts made in bonus payments. For a group of 20

retail companies, with either no incentive compensation plans or with bonus payments amounting to less than 15% of the total compensation paid to executives in 1929, total compensation commonly was reduced by only 11% in 1932 as compared with 1929. These declines of 51% and 11% compare with a decline of 30% in total pay rolls for the general merchandise field (1932 compared with 1929) as disclosed by the figures of the Bureau of Labor Statistics.

It is apparent that among the companies using bonus plans executive compensation followed changing sales and earnings more closely than it did among firms having no such plans. Whether bonus plans were used or not, salaries ordinarily were subjected to a reduction of between 8% and 12% from 1929 to 1932, the decline usually taking place following 1931.

The dollar sales volumes and dollar earnings of retail companies declined substantially from 1929 to 1932. Department stores, however, suffered greater reductions in income than did chains; many of the latter companies were still opening new stores in 1930 and 1931, and the aggregate sales for old and new units in those years were not far below the aggregate sales of 1929.

On the average, executive compensation in department stores did not decline so sharply as did total earnings prior to executive compensation and interest charges. Hence, for the combined nine-year period, the share of such earnings going to department store executives, 19.5%, was greater than it had been in 1929 when about 12% of earnings was paid to executives. Chain store companies, on the other hand, throughout the nine years paid but 7.4% of earnings to executives, 6.2% of earnings having been so used in the single year 1929.

Over the nine-year period, chain and department store companies typically paid their stockholders slightly more than 50% of earnings. Dividend payments were decreased successively in 1931, 1932, and 1933 by department store companies, total dividend payments in 1933 commonly amounting to less than 30% of the dividends paid in 1929.

It was estimated that payments to department store executives at the same time had been reduced to about 70% of the 1929 figure. Chain store companies were able to hold dividend payments fairly constant until 1932, and in 1933 such disbursements still amounted to 62% of the dividend payments in 1929. During the nine years, chains paid out almost seven times as much in dividends as in executive compensation, while department stores paid out not quite three times as much to stockholders as to executives. The pattern of dividend payments changed completely in 1936 because of tax legislation affecting such payments and because of payment of cumulative dividends on preferred stock.

In 1936, actual dollar payments to the three highest paid executives of department stores exceeded 1929 levels, and showed an increase over 1934 and 1935. Dollar payments (relatives) to all executives in department stores in 1936, however, were still about 12% below 1929. For chain companies, there was practically no change in actual dollar payments to the three highest paid executives from 1934 through 1936, and the 1936 level was below the 1929 level. Total dollar payments to all executives in the chain group in 1936 were about 3% below the 1929 level and increased 8% over 1935.

Department store executives ordinarily owned about twice as much voting stock in their companies as did chain store executives. Examination of compensation and dividend payments, in the light of the extent of stock owned by management, discloses a tendency for dividend payments to amount to a larger percentage of the earnings in retail companies with little stock owned by management than is the case for firms with large blocks of stock so controlled. No relationship appears to exist between the proportion of stock owned and the percentage of earnings paid to executives, nor was there evidence that large earnings necessarily accompanied extensive stock ownership by management.

CHAPTER VI

EXECUTIVE COMPENSATION POLICIES AND OPERATING EXPENSES OF INVESTMENT COMPANIES[1]

Investment companies, organized for the most part to invest and manage stockholders' funds, were in 1936 a particularly interesting group of corporations to examine. Elaborate statistical data concerning them were available at that time for analysis, and important public investigations were being conducted revealing past and current practices and policies.

The following study, undertaken to discover whether the officers of investment companies were paid in ways similar to and in amounts comparable with officers of industrial and retail companies, early disclosed great dissimilarities between the three groups of companies. For example, sales volume and earnings were important items in measuring executive compensation for industrial companies, and assets of secondary significance, whereas for investment companies assets were of basic importance. The inherent nature of these and other differences therefore placed major emphasis on gross income, net assets, and operating expenses. Furthermore, of particular interest in this analysis as it applies to executive compensation in investment companies is the multiplicity of ways in which officers were paid and the variations in such payments, the presence of controlling groups, and the substantial share of gross

[1] Chapter VI, in slightly different form, appeared originally as an article in the *Harvard Business Review*, Spring, 1937, entitled, "Operating Expenses and Executive Compensation Policies of Investment Companies: 1929–1935." A study of dollar payments to executives for 1936 has been added, but emphasis has been placed on 1935 figures, as the first fairly normal year after 1930.

income absorbed by executive and management groups in their operations.

Selection of Thirty-six Companies for Study

Although considerable statistical information was secured for more than 80 publicly owned investment companies, only 36[1] were finally selected for analysis because of the wide difference in objectives, statistical data available, and policies among the companies, which made comparison of figures for a larger group virtually impossible. Information was secured from the annual reports of investment companies, the records of the Federal Trade Commission and the Securities and Exchange Commission, listing statements, and other public sources.

The companies chosen differed greatly in size as measured by the average net assets[2] in 1935. The range was from

[1] The 36 companies included in this study are:

Adams Express Company
Allied International Investing Corporation
American Cities Power and Light Corporation
American European Securities Company
American International Corporation
Atlas Corporation
Blue Ridge Corporation
Capital Administration Company, Ltd.
Central States Electric Corporation
Chicago Corporation (The)
Dividend Shares, Inc.
Electric Shareholdings Corporation
Equity Corporation (The)
General American Investors Company, Inc.
Incorporated Investors
Lehman Corporation (The)
Massachusetts Investors Trust
Mayflower Associates, Inc.
Oilstocks Limited
Overseas Securities Co., Inc.
Pacific Eastern Corporation
Petroleum Corporation of America
Phoenix Securities Corporation
Prudential Investors, Inc.
Quarterly Income Shares, Inc.
Railway and Light Securities Company
Selected Industries Incorporated
Shenandoah Corporation
Solvay American Investment Corporation
Standard Investing Corporation
State Street Investment Corporation
Sterling Securities Corporation
Tri-Continental Corporation
United States & Foreign Securities Corporation
United States & International Securities Corporation
Utility Equities Corporation

[2] The net assets figure is obtained by subtracting current liabilities from total assets, usually defined by the company as at market or approximate

slightly over $900,000 to more than $88,000,000, although all but three had assets of $5,000,000 or more. The median average net asset figure for the entire group in 1935 was almost $25,000,000. Average net asset figures in 1929 were available for only 28 companies, but the 1935 total for the 36 companies combined amounted to only $974,-000,000, as contrasted with a total of almost $1,500,000,000 for the 28 companies in 1929. These same 28 firms in 1935 had assets totaling $704,000,000, or less than one-half of the 1929 figure. Not too much is to be read into this decline, since many other factors in addition to the shrinkage in stock prices were present. Variations in average net assets in individual companies were wide, fortunate or unfortunate management policies playing their part. Certain of the companies added to their assets from year to year by the sale of shares, while others decreased their assets by purchasing their own securities. Still other companies merged or made changes in their corporate structure.

The companies vary in respects other than size or change in asset values. If corporate structure is used as an indication of type, for example, 26 are leverage companies and 10 non-leverage companies. Another important difference is in the use of management plans. Of the 33 companies reporting on this question, 20 had management or service agreements in 1935[1] while 13 had no such arrangements.

Gross Income in Relation to Average Net Assets

The percentage of gross income[2] to average net assets indicates roughly the average yield on an investment company's capital. In 1935 the yield for the 36 firms ranged from 0.6% of the average net assets to 5.4%. The

market value. The average net assets figure for a company is secured by adding the net assets at the beginning and end of the fiscal year and dividing by two.

[1] Four of these paid no fees in 1935.

[2] Gross income includes all income of a company from dividends, interest, and underwriting and service fees.

median percentage, as shown in Exhibit 48, is 3.7, the lowest in the seven years studied. The years of highest yield are, as might be expected, 1931 and 1932, when the medians were 6.0% and 5.8% respectively, or almost half again as large as in 1935. For the six years 1930–1935 combined, the median was 5.1%.

EXHIBIT 48.—GROSS INCOME AS A PERCENTAGE OF AVERAGE NET ASSETS[1] FOR 36 INVESTMENT COMPANIES CLASSIFIED ACCORDING TO TYPE: 1929–1935, AND 1930–1935 COMBINED[2]
(Median figures)

Year	All companies, %	Leverage companies, %	Non-leverage companies, %
1929	4.6	4.9	4.1
1930	4.8	5.1	4.5
1931	6.0	6.1	5.1
1932	5.8	6.0	4.4
1933	4.2	4.7	2.2
1934	4.3	4.5	4.1
1935	3.7	4.0	3.3
1930–1935 combined	5.1	5.3	4.2

[1] Gross income includes all income of a company from dividends, interest, and underwriting and service fees; the net assets figure is obtained by subtracting current liabilities from total assets, usually defined by the company as at market or approximate market value. The average net assets figure is secured by adding the net assets at the beginning and end of the fiscal year and dividing by two.

[2] Figures were not available for all 36 companies for the entire period. Thirteen of the 36 companies, for example, were organized in or following the year 1929; consequently complete data for these companies for 1929 did not exist. The medians given for the seven years are determined from the items available for the years in question. Since figures were given by only part of the firms for 1929, data for that year were omitted in arriving at the median figures for the combined years; these are based on data for 28 companies reporting figures for the entire six years.

It seems reasonable to expect that leverage companies, since they depend on adequate gross income to meet preferred dividends or fixed charges, might direct their investment policies more largely toward income than non-leverage companies. Figures for the two groups in Exhibit 48 show that the leverage companies in each year did tend to secure somewhat higher yields than did non-leverage companies. The median in 1935 for non-leverage firms was 3.3%, and for leverage concerns, 4.0%. Figures for the entire period 1930–1935 combined showed a slightly wider difference,

the non-leverage companies securing 4.2% of average net assets and the leverage companies obtaining 5.3%.

It must be remembered in considering these figures that the samples of firms reviewed are small, particularly the non-leverage group. Also the extreme ranges of the percentages for both groups are wide. Too much dependence, therefore, should not be placed on the significance of the medians presented. An examination of all 36 companies, however, shows that five of the nine firms having the lowest yields in 1935 were non-leverage companies, while eight of the nine firms having the highest yields were leverage companies.

Size seemed to make very little difference in the rate of income realized on average net assets. As a preliminary step in grouping the companies by size, a test was made of the relation of gross income in dollars to average net assets in dollars. A scatter diagram, reproduced as Exhibit 49, was prepared in which each point indicated by its distance from the left-hand vertical the gross income of one particular company in 1935, and by its distance from the base line, the average net assets of the same company. The "line of fit" indicated in this chart and the narrow margin within which the points fall on either side of the line reveal the uniformity of the relationship between income and net assets.

Firms with large net assets had large gross income, while firms with relatively small net assets had small gross income. Therefore the firms were classified in three size groups, using both gross income and average net assets as limiting factors, as follows:

(1) Sixteen small firms with average net assets of less than $20,000,000 and gross income of less than $750,000.

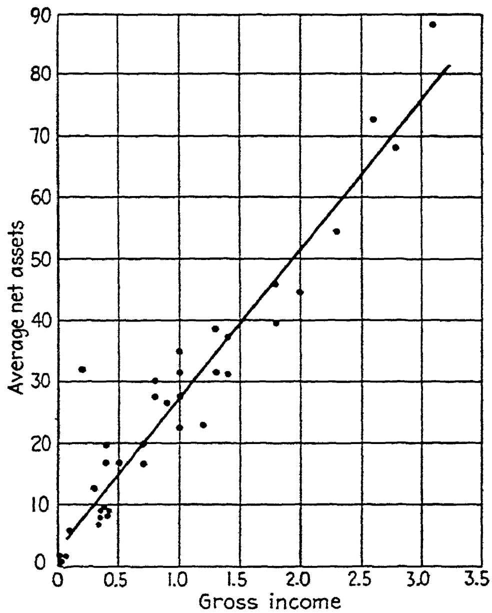
(2) Twelve medium-sized firms with average net assets of from $20,000,000 to $40,000,000 and gross income of from $750,000 to $1,500,000.

(3) Seven large firms with average net assets of $40,000,000 or more and gross income of $1,500,000 or more.

Six firms were clearly in this group, and one additional company with $39,773,830 in assets and $1,768,668 in gross income was also included.

It should be noted that one company with average net assets of over $30,000,000 and gross income of less than

EXHIBIT 49.—CORRELATION OF AVERAGE NET ASSETS AND GROSS INCOME FOR 36 INVESTMENT COMPANIES: 1935[1]
(Unit = $1,000,000)



[1] Gross income includes all income of a company from dividends, interest, and underwriting and service fees; the net assets figure is obtained by subtracting current liabilities from total assets, usually defined by the company as at market or approximate market value. The average net assets figure is secured by adding the net assets at the beginning and end of the fiscal year and dividing by two.

$750,000 was excluded from the classification according to size, since it could not be assigned to any one of the three groups.

The median percentage in 1935, as shown in Exhibit 56 (page 124), for gross income to average net assets for the group of small trusts was 3.9; for the group of medium-sized firms, 3.5; and for the group of large companies, 4.1. The

small differences in these percentages reflect the situation shown in Exhibit 49.

Operating Expenses in Relation to Gross Income

Dollar operating expenses[1] of the 36 investment companies in 1935 varied from less than $10,000 in the case of two small firms to approximately $1,500,000 for one of the largest concerns. Obviously, with such a wide range of expense it was necessary to express the figures in some form which would facilitate intercompany comparisons. Gross income was selected as one of the bases for computing percentages, and average net assets as another.

The comparison of expenses with gross income must obviously be used with caution. Certain investment companies aim at appreciation in asset values rather than at the maintenance or increase of gross income, and it is reasonable to suppose that the difference in policy affects dollar receipts. Nevertheless it seemed desirable to calculate the relation of expense to the income available for defraying that expense. Furthermore, Exhibit 49 shows very clearly the close relationship between assets and income, even though the latter may not be the primary object of management. Median percentages for the years 1929–1935 and for the combined period 1930–1935 are given in Exhibit 50.

The median percentage for 1935 was 19.3. The 36 firms typically spent for operating in 1935 almost one-fifth, or 20 cents, of every dollar of income from dividends, interest, and underwriting fees. Attention again is called to the fact that these proportions were in part determined by investment policy. The range of the percentages among companies is wide, varying from 5.4 to over 100.0, the latter figure for three companies which did not secure income sufficient to meet operating expenses. It cost one-fourth of the companies less than 15% of gross income to operate,

[1] Total operating expense includes all outlays except interest payments and Federal and state taxes upon income and capital gains.

while another fourth spent over 26% for operating costs; the remaining half of the companies spent amounts lying between these percentages. Not only were there pronounced differences among the companies in the percentages for one year, but also there were great variations in the percentages from year to year in individual companies. The median percentage fluctuated from 11.9 in 1931, the lowest year, to 20.9 in 1933, the highest year. The median percentage for the period 1930–1935 was 16.0.

EXHIBIT 50.—OPERATING EXPENSES AS A PERCENTAGE OF GROSS INCOME[1] FOR 36 INVESTMENT COMPANIES: 1929–1935, AND 1930–1935 COMBINED[2]
(Median figures)

Year	%
1929	15.5
1930	12.2
1931	11.9
1932	16.7
1933	20.9
1934	17.5
1935	19.3
1930–1935 combined	16.0

[1] Gross income includes all income of a company from dividends, interest, and underwriting and service fees.

[2] Figures were not available for all 36 companies for the entire period. Thirteen of the 36 companies, for example, were organized in or following the year 1929; consequently complete data for these companies for 1929 did not exist. The medians given for the seven years were determined from the items available for the years in question. Since figures were not given by all of the firms for 1929, data for that year were omitted in arriving at the median figures for the combined years; these are based on data for 30 companies reporting figures for the entire six years.

In order to throw light on the differences in the annual median percentages, the year-to-year changes in dollar figures for income and operating expense for each of the 20 investment companies reporting such figures for all seven years were examined, and the medians appear in Exhibit 51.

Although median figures cannot be expected to move exactly together, nevertheless they do serve to explain the major changes in the expense percentages. It is at once evident from the figures that dollar income increased from 1929 to 1930 while dollar expense fell. This is reflected in the drop in the median figure for operating expense as a

percentage of income in Exhibit 50. Between 1930 and 1931 expense declined at a slightly more rapid rate than did dollar income, and the percentage figure for expense fell slightly below that for 1930. From 1931 to 1932, however, income was greatly diminished and expenses were not correspondingly reduced; as a consequence the expense percentage rose. Still further decreases in dollar income in 1933 were accompanied by slight increases in dollar expense, and the expense percentage climbed to the

EXHIBIT 51.—FLUCTUATION IN OPERATING EXPENSES AND GROSS INCOME[1] FOR 20 INVESTMENT COMPANIES: 1929–1935[2]
(Median figures)

Year	Index numbers; 1935 = 100	
	Gross income	Operating expense
1929	196	218
1930	220	160
1931	193	126
1932	118	93
1933	98	101
1934	100	96
1935	100	100

[1] Gross income includes all income of a company from dividends, interest, and underwriting and service fees.
[2] Only 20 of the 36 companies reported income and expense for all seven years.

highest figure recorded, 20.9. For the years 1933, 1934, and 1935, dollar income remained fairly uniform while dollar expense varied slightly. The median expense percentages show variations in these years, but they tend to be more like the high 1933 figure than the lower rates typical of the earlier years.

Operating Expenses in Relation to Average Net Assets

As suggested previously, the commonly accepted base for measuring management results and costs among investment companies is assets. Before concluding this section of the study, therefore, operating expenses have been compared to average net assets.

The median percentages for operating expense to average net assets, given in Exhibit 52, show no great change between 1929, when the median was 0.7%, and 1935, when it was 0.8%. The peak in 1933 was 0.9%, only 0.1% higher. The extreme decline in asset values during the depression is reflected in somewhat higher ratios of expense to assets in those years, although to a surprisingly small degree. In several companies, in fact, the percentage of expense to average net assets declined after 1929.

EXHIBIT 52.—OPERATING EXPENSES AS A PERCENTAGE OF AVERAGE NET ASSETS[1] FOR 36 INVESTMENT COMPANIES CLASSIFIED ACCORDING TO TYPE: 1929–1935, AND 1930–1935 COMBINED[2]
(Median figures)

Year	All companies, %	Leverage companies, %	Non-leverage companies, %
1929	0.7	0.7	1.1
1930	0.6	0.6	0.7
1931	0.7	0.6	1.0
1932	0.8	0.8	0.8
1933	0.9	0.9	0.7
1934	0.8	0.8	0.7
1935	0.8	0.8	0.8
1930–1935 combined	0.7	0.7	0.9

[1] The net assets figure is obtained by subtracting current liabilities from total assets, usually defined by the company as at market or approximate market value. The average net assets figure is secured by adding the net assets at the beginning and end of the fiscal year and dividing by two.

[2] Figures were not available for all 36 companies for the entire period. Thirteen of the 36 companies, for example, were organized in or following the year 1929; consequently complete data for these companies for 1929 did not exist. The medians given for the seven years were determined from the items available for the years in question. Since figures were not given by all of the firms for 1929, data for that year were omitted in arriving at the median figures for the combined years; these are based on data for 28 companies reporting figures for the entire six years.

The medians in Exhibit 52 are based on varying numbers of firms in the different years, since data were not available for all companies throughout the period. It was thought wise, therefore, before drawing any conclusions concerning the trend of the percentages, to examine the figures for the 22 firms that reported consistently. As will be seen from the medians in Exhibit 53, these percentages differ

little from the medians presented for all the companies in Exhibit 52.

In Exhibit 52 median figures also appear, indicating the relation of operating expense to average net assets for leverage and non-leverage companies. The figures are practically the same, 0.8% of average net assets for both leverage and non-leverage companies in 1935, and 0.8% and 0.7% in 1934. Investigation into the effect of size of company on the operating expense percentages revealed

EXHIBIT 53.—OPERATING EXPENSES AS A PERCENTAGE OF AVERAGE NET ASSETS[1] FOR 22 INVESTMENT COMPANIES: 1929–1935, AND 1930–1935 COMBINED[2]

(Median figures)

Year	%
1929	0.7
1930	0.7
1931	0.7
1932	0.8
1933	0.9
1934	0.8
1935	0.7
1930–1935 combined	0.7

[1] The net assets figure is obtained by subtracting current liabilities from total assets, usually defined by the company as at market or approximate market value. The average net assets figure is secured by adding the net assets at the beginning and end of the fiscal year and dividing by two.

[2] Only 22 of the 36 companies reported expense and asset figures for all seven years.

no marked differences for small, medium-sized, and large firms, as shown in Exhibit 56 (page 124). Small companies incurred operating expense in 1935 amounting to 0.8% (median) of their average net assets; medium-sized concerns incurred expense of 0.6%, while the median for large firms was 0.8%. As stated earlier, the size groups are made up of small numbers of companies, and conclusions drawn from the data must be considered as tentative at best.

Purpose of Study

In the previous paragraphs the average net assets, gross income, operating expenses, and the relationships among these items have been described briefly in summary form. Such steps were necessary to furnish background for this

study, the chief purpose of which is to examine executive compensation policies of investment companies, and the relationship of executive compensation to net assets, income, and expenses, as well as actual dollar amounts paid to officers. The analysis was complicated by the management policies of investment companies, some having their own full-time officers, some paying management fees, some doing both, and a few having officers paid only nominal fees.

The definition of executive compensation also presented many difficulties because of the various types of remuneration. Unless otherwise stated, however, the term is limited to total cash salary of more than $1,000 per year.

Executive Compensation and Management Fees in Relation to Gross Income

Executive compensation figures expressed as percentages of gross income are given in Exhibit 54 for the 33 firms reporting the data. The classification of companies into two groups, those paying and those not paying management fees, is based on conditions in 1934 and 1935. The determination of similar percentages for previous years could not be accomplished without further inquiry into management arrangements. For that reason data for only two years are included in Exhibits 54 and 55.

EXHIBIT 54.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF GROSS INCOME[1] FOR 33 INVESTMENT COMPANIES CLASSIFIED ACCORDING TO PAYMENT OR NON-PAYMENT OF MANAGEMENT FEES: 1934 AND 1935[2]
(Median figures)

Items	1934, %	1935, %
All companies	3.4	3.6
Companies paying management fees	1.0	0.9
Companies not paying management fees	4.6	4.9

[1] Gross income includes all income of a company from dividends, interest, and underwriting and service fees.

[2] Of the 33 companies considered, there were no data for 2 in 1934 and for 3 in 1935. Three of the companies had no executive compensation figures available for either year.

For individual companies in 1935, executive compensation ranged from 0.0% of gross income, reported by four companies with management arrangements, to 24.5%. The median was 3.6%. In 1934 the range was from 0.0% to 36.7%, but the median, 3.4%, was practically the same as for 1935. The effect of management arrangements on executive compensation payments was very great, as might be expected. For the companies paying no management fees, executive compensation typically required 4.6% and 4.9% of the gross income in 1934 and 1935. In contrast, for firms paying management fees the compensation of *company* executives on the average amounted to but 1.0% and 0.9% of the gross income in those two years.

Executive Compensation and Management Fees in Relation to Operating Expenses

A large share of the total expense of an investment company is incurred for either executive compensation, management fees, or both. Median percentages for 1934 and 1935 in Exhibit 55 indicate this clearly. For the 30 companies reporting executive compensation expense in 1935, about one-seventh (median 14.1%) of the total expense typically was for executive payments. This median means little, however, as the figures for the individual companies vary greatly. Several firms, for example, incurred no expense for executive salaries but paid substantial sums to management companies. Other firms had executive compensation amounting to more than half the total operating expense.

Management fees commonly accounted for about 53% of the total operating expense. The share of the expense going to management companies varied in individual companies, however, from about 13% to over 75%, depending on the extent to which the executive functions were assumed for the investment company by the management group. Four of the five investment companies which paid less than

25% of their total operating costs for management fees in 1935 had additional executive payments accounting for from 14.6% to 26.2% of total expense. On the other hand, firms paying 45% or more of their total operating costs to outside companies incurred less than 7% for their own executives.

EXHIBIT 55.—EXECUTIVE COMPENSATION AND MANAGEMENT FEES AS PERCENTAGES OF OPERATING EXPENSES FOR INVESTMENT COMPANIES CLASSIFIED ACCORDING TO PAYMENT OR NON-PAYMENT OF MANAGEMENT FEES: 1934 AND 1935
(Median figures)

Items	1934			1935		
	No. of companies	% of operating expenses: Executive compensation	% of operating expenses: Management fees	No. of companies	% of operating expenses: Executive compensation	% of operating expenses: Management fees
All companies	31	19.1	....	30	14.1	
Companies paying management fees	15*	3.7	53.2	16*	3.2	52.8
Companies not paying management fees	17	30.8	....	16	30.5	

* For one company in 1934 and two companies in 1935, executive compensation figures were not available.

Executive Compensation and Management Fees in Relation to Average Net Assets

In 1935 only 26 of the 36 companies reported any expenditure for executive compensation as defined in this study. Four additional companies reported compensation of less than $1,000 per executive, but paid substantial management fees. The other six did not report executive compensation, but two of them reported management fees. Of the 26 companies, 10 paid management fees in addition to executive salaries and 16 did not.

The range in the percentages of executive compensation to average net assets in the companies reporting for 1935 varies from 0.0 to 0.3, and for 1934 from 0.0 to 0.8. The median for the entire group in 1935 is 0.1% and in 1934, 0.2%; for the group paying management fees, 0.0% in both years; and for the group not paying management fees, 0.2% in both years.

For the 16 companies paying management fees, such fees typically amounted to 0.5% of the average net assets in both 1934 and 1935. These medians clearly reflect the general policy of nine of the firms, which paid 0.5% of their average net assets annually as management fees.

Effect of Size of Company on the Foregoing Relationships

Size of company frequently is considered an outstanding factor in the relationship between operating expense, executive compensation, gross income, and net assets. Exhibit 56 indicates in summary form the possible effect of size on many of the expense ratios of investment companies. As indicated previously, size affects the percentage of gross income to average net assets very little. The same is true for the relationships of operating expense to gross income and to average net assets. Little of significance also appears in the percentage figure indicating the relationship of executive compensation and management fees to average net assets and gross income. Indeed, the most surprising part of Exhibit 56 is the close similarity among all percentage figures for the different size groups. Certainly from this exhibit it appears that size in itself gives no special advantages to investment companies so far as executive compensation and total expense are concerned.

Effect of Type of Management on Operating Expense

While studying the effect of size of company on operating expense and other items, the figures for 20 companies paying no management fees in 1934 and 1935 were contrasted with those for 16 companies which paid such fees

EXHIBIT 56.—AVERAGE NET ASSETS, GROSS INCOME, AND EXECUTIVE COMPENSATION AND MANAGEMENT FEES; DOLLAR FIGURES AND PERCENTAGES FOR 35 INVESTMENT COMPANIES[1] CLASSIFIED ACCORDING TO SIZE OF COMPANY:[2] 1935
(Median figures)

Items[3]	Small companies	Medium-sized companies	Large companies
Number of companies	16	12	7
Average net assets	$9,145,267	$30,751,563	$54,490,531
Gross income	391,433	1,010,546	2,333,383
Percentage of average net assets	3.9%	3.5%	4.1%
Operating expenses:			
Percentage of average net assets	0.8	0.6	0.8
Percentage of gross income	20.7	17.1	18.3
Executive compensation plus management fees:			
Percentage of average net assets	0.3	0.2	0.3
Percentage of gross income	8.0	5.6	7.2
Executive compensation:			
Percentage of average net assets	0.1	0.1	0.2
Percentage of gross income	3.7	2.8	5.6

[1] One of the 36 companies studied could not be classified in any of the three size groups.

[2] Small companies had average net assets of less than $20,000,000, gross income of less than $750,000; medium-sized companies had average net assets of $20,000,000 to $40,000,000, gross income of $750,000 to $1,500,000; large companies had average net assets of $40,000,000 or more, gross income of $1,500,000 or more.

[3] Gross income includes all income of a company from dividends, interest, and underwriting and service fees; the net assets figure is obtained by subtracting current liabilities from total assets, usually defined by the company as at market or approximate market value. The average net assets figure is secured by adding the net assets at the beginning and end of the fiscal year and dividing by two.

EXHIBIT 57.—OPERATING EXPENSES AS A PERCENTAGE OF GROSS INCOME[1] FOR 36 INVESTMENT COMPANIES CLASSIFIED ACCORDING TO PAYMENT OR NON-PAYMENT OF MANAGEMENT FEES: 1934 AND 1935
(Median figures)

Items	Operating expenses, % of gross income	
	1934	1935
Companies paying management fees	17.5	20.3
Companies not paying management fees	17.1	17.6

[1] Gross income includes all income of a company from dividends, interest, and underwriting and service fees.

in these two years, to discover the effect of the two types of management on operating expense. Medians for the two groups appear in Exhibit 57.

In 1935 the firms paying no management fees incurred somewhat lower expenses than those paying management fees, while for 1934 the expense percentages were approximately the same. Because of the limited number of companies, about the only conclusion to be drawn is that expense was little affected by the type of management.

It is noteworthy, perhaps, that none of the seven companies which paid less than 12% of their gross income for operating costs in 1935 paid any management fees. In other words, the companies with extremely low operating percentages, whether they were large, medium-sized, or small, characteristically paid no fees for management.

Dollar Compensation of the Three Highest Paid Executives

Reports of the individual companies to the Federal Trade Commission furnish comparable data on salaries and additional cash compensation of all executive officers separately for the years 1928–1932. Since similar material collected for 1933 covers only the first nine months, it cannot be compared fairly with the figures for prior years. The form used by the Securities and Exchange Commission, on the other hand, provided for an itemization of total compensation figures for only the three men receiving the highest remuneration. In order to study changes in executive compensation from year to year, it was necessary to limit the data used to similar material available from both sources. Consequently, the cash compensation for the three highest paid executives in each company was tabulated for each year except 1933. Compensation of less than $1,000 per year was excluded from the tabulation, and any firm paying fewer than three executives $1,000 apiece was omitted. Median dollar compensation of the three highest paid executives, therefore, given in Exhibit 58,

is based upon reports from less than half of the 36 companies in the sample.

EXHIBIT 58.—TYPICAL DOLLAR COMPENSATION OF THREE HIGHEST PAID EXECUTIVES IN INVESTMENT COMPANIES, CLASSIFIED ACCORDING TO SALARY RANKING IN INDIVIDUAL COMPANIES: 1929–1936

Ranking of executive in individual companies	No. of companies[1]	Median amount	% of median compensation of highest paid executive
1929	9		
Highest paid executive	..	$22,500	100
Second highest paid executive	..	13,800	61
Third highest paid executive	..	8,900	40
1930	12		
Highest paid executive	..	24,300	100
Second highest paid executive	..	9,300	38
Third highest paid executive	..	6,600	27
1931	15		
Highest paid executive	..	20,700	100
Second highest paid executive	..	7,500	36
Third highest paid executive	..	4,400	21
1932	14		
Highest paid executive	..	17,500	100
Second highest paid executive	..	6,300	36
Third highest paid executive	..	4,500	26
1933	..		
Highest paid executive	..	*	
Second highest paid executive	..	*	
Third highest paid executive	..	*	
1934	16		
Highest paid executive	..	14,000	100
Second highest paid executive	..	6,500	46
Third highest paid executive	..	5,000	36
1935	16		
Highest paid executive	..	16,600	100
Second highest paid executive	..	9,200	55
Third highest paid executive	..	5,500	33
1936	14		
Highest paid executive	..	20,100	100
Second highest paid executive	..	12,900	64
Third highest paid executive	..	6,600	33

* Data not available.

[1] Variations in the number of companies from year to year is caused by lack of data for certain companies in some of the years.

Of the 16 companies used in the comparison for 1935, 11 were firms paying no management fees. Only five investment companies paying management fees in 1935 paid three of their own executives $1,000 or more each.

Officers having the highest cash compensation typically received from $20,700 to $24,300 each in 1929, 1930, and 1931. By 1932 this figure had dropped to $17,500, and in 1934 it reached a low point of $14,000. By 1935 the figure had risen to $16,600, and in 1936 it was $20,100. In four out of the seven years with figures available, the second highest paid executive received approximately 40% as much as the highest paid officer, and in the other three years he received around 60%. In 1936 the second highest paid officer received one-third less than the highest paid. The next ranking man received roughly one-fifth to one-third the amount going to the highest paid executive. Only three of the companies studied paid cash salaries of over $30,000 to any one of their executives in 1935, and only six men received such salaries.

It should be noted perhaps that the salaries paid by the five companies with management arrangements in 1935 in all cases fell below the medians presented for all 16 companies for that year.

The size of the company might be expected to have some influence on the salaries paid to executives. When the size groupings used earlier in the study were applied to the 16 investment companies, each of which paid three executives $1,000 or more apiece either in 1934 or in 1935, four proved to be small companies, seven were medium-sized companies, and four were large companies. One firm could not be classified.

Obviously, conclusions could not be drawn concerning the effect of size of company on compensation figures on the basis of the figures reported for such small groups of firms. It seemed desirable, therefore, to classify the firms in only two groups, small and large companies.[1] Accordingly, in Exhibit 59 median figures are presented for the salaries paid in 1934 and 1936 to the three highest paid men in investment companies according to this classification. The medians should be regarded as suggestive because the

[1] See Exhibit 59, footnote 2, for limits of classification in 1934 and 1936.

EXHIBIT 59.—TYPICAL DOLLAR COMPENSATION OF THE THREE HIGHEST PAID EXECUTIVES ACCORDING TO SALARY RANKING IN INDIVIDUAL COMPANIES FOR INVESTMENT, INDUSTRIAL, STEEL, AND RETAIL COMPANIES CLASSIFIED ACCORDING TO SIZE:[1] 1934 AND 1936

Ranking of executive in each type of company	Small companies[2]				Large companies[2]				All companies			
	1934		1936		1934		1936		1934		1936	
	No. of companies	Median amount (unit = $1,000)	No. of companies	Median amount (unit = $1,000)	No. of companies	Median amount (unit = $1,000)	No. of companies	Median amount (unit = $1,000)	No. of companies	Median amount (unit = $1,000)	No. of companies	Median amount (unit = $1,000)
Highest paid executive:												
Investment companies	7	$12	6	$20	8	$ 19	8	$ 19	16†	$14	14	$20
Industrial companies	21	76	21	77	23	100	23	102	44	84	44	93
Steel companies	10	32	10	34	7	54	9	115	17	48	19	63
Retail companies:												
Chains	9	36	9	36	11	60	11	60	20	43	20	41
Department stores	6	48	6	47	8	69	8	82	14	61	14	77
Total	..	...	..	...	..	...	..	...	34	58	34	60
Second highest paid executive:												
Investment companies	7	5	6	12	8	8	8	13	16†	6	14	13
Industrial companies	21	50	21	58	23	53	23	75	44	50	44	64
Steel companies	10	16	10	23	7	50	9	85	17	30	19	50
Retail companies:												
Chains	9	19	9	21	11	40	11	40	20	24	20	28
Department stores	6	30	6	30	8	59	8	73	14	43	14	60
Total	..	...	..	...	..	...	..	..	34	30	34	35

Third highest paid executive:												
Investment companies	7	3	6	5	8	8	8	8	16†	5	14	7
Industrial companies	21	40	20‡	38	23	42	23	60	44	40	43‡	49
Steel companies	10	13	9‡	13	7	41	9	60	17	21	18‡	36
Retail companies:												
Chains	9	13	8‡	16	11	38	10‡	40	20	21	18‡	23
Department stores	6	23	6	25	8	53	8	68	14	39	14	44
Total	..	...	..	...	..	...	..	...	34	28	32‡	33

† One investment company could not be classified by size.

‡ The compensation of the third highest paid executive in one industrial company, one steel company, and two chain store companies was not available.

[1] For detailed discussion of executive compensation policies in the various company classifications, see the following chapters: retail companies, Chaps. IV and V; steel companies, Chap. VII; industrial companies with assets of $100,000,000 and over, Chaps. VIII and IX.

[2] The bases used in classifying the companies by size differed in the various groups of companies, as follows:

Type of company	Small companies	Large companies
	(Unit = $1,000,000)	
Investment companies, 1934	Average net assets of less than $25	Average net assets of $25 or more
Investment companies, 1936	Average net assets of less than $30	Average net assets of $30 or more
Industrial companies	Assets of less than $178 in 1929	Assets of $178 or more in 1929
Steel companies	Assets of less than $90, sales of less than $50 in 1929	Assets of $90 or more, sales of $50 or more in 1929
Chain store companies	Sales of less than $50 in 1934	Sales of $50 or more in 1934
Department store companies	Sales of less than $20 in 1934	Sales of $20 or more in 1934

NOTE: Average net assets for investment companies in general increased between 1934 and 1936. Hence, in order to have a sufficiently large sample of small companies to warrant securing a median figure, it was necessary to increase the point of division in 1936.

samples are still very small. There was only a slight tendency for the executives in large investment companies to receive higher cash compensation than did the officers of small investment companies.

Investment Companies and Other Industries Compared

The typical compensation of officers in investment companies was considerably lower than that for executives in other industries. In Exhibit 59 median figures for dollar payments to the three highest paid men in industrial and retail companies indicate that, on the average, the amount of the compensation paid to investment company executives was from one-fourth to one-sixth as much as that characteristic of industrial companies. The highest typical salaries listed in the exhibit went to the highest paid executives of large steel companies. Department stores, however, paid relatively large salaries to the three highest paid officers. The influence of size as a factor in increasing dollar compensation among the retail, steel, and industrial firms was more pronounced than among investment companies.

Comparison of the salary levels of executives in investment companies with the remuneration of executives in other trades must be interpreted in view of certain circumstances affecting both groups. In the first place, officers may receive warrants or options to buy stock in addition to or in lieu of cash salary. This is true in the retail and industrial areas as well as in the investment companies. This deferred compensation, which is difficult to measure, may change total executive compensation substantially. In 1934 only six investment companies reported warrants or options outstanding to officers.

It is possible also that officers of investment companies, as well as other employees, may be in a strategic position to increase their income through special research information available to them. Such knowledge may contribute indirectly to the revenue of the men in investment firms.

Then again, officers of investment companies frequently hold executive positions in more than one company and thus receive compensation from more than one source. A careful examination of such payments, however, failed to reveal any substantial income to any large number of officers.

Methods of Compensating Executives

The methods of paying and the amounts paid to executives of investment companies vary greatly. As indicated previously, certain companies pay officers directly while other companies pay management fees to separate corporations which perform some or all of the executive functions. Any study of the plans for paying officers, therefore, must be supplemented by an examination of existing management agreements.

Management Agreements and Salary Arrangements. Many investment companies had definite management contracts while a few had agreements which could be terminated at a month's notice. The arrangements were surprisingly uniform.[1] Nine of the companies paid monthly, quarterly, or semiannually, amounts which approximated ½ of 1% of the market value of the average net assets.[2] Only two of the firms had agreements providing for fees based on net profits; these fees were at the rate of 10% and 12½% of the net profits, with profits variously defined. One company arranged to pay 17¼% on net income while another company paid a fixed amount plus a percentage of the income. Four firms paid fixed amounts only. In the case of each of the three remaining companies having management agreements, there was no definite scale of payment for the service rendered.

[1] It must be remembered that the sample used was small. An examination of other investment trusts revealed other rates. For example, Fourth National Investors paid quarterly 3/16 of 1% of average value of investment funds and Nation-Wide Securities Company paid quarterly 1/16 of 1% of average market value of net assets.

[2] Two paid monthly 1/24 of 1%; four paid quarterly 1/8 of 1%; one paid semiannually 1/4 of 1%, and two paid annually 1/2 of 1%.

Two companies reported formal salary arrangements with their executives. Massachusetts Investors Trust, by virtue of its deed of trust as of October, 1935, agreed to pay the three trustees and five members of the advisory board 5% of the annual gross earnings excluding capital gains. Prior to October 1, 1935, the percentage was 6%. These men received something in every year of the period studied, although their total compensation was less than $50,000 in each year from 1928 through 1930. Earnings in 1935 indicated the highest figure of the period. The other company was Overseas Securities Company, which had an arrangement to pay the directors 8% of net profits. In 1928, 12 executives received a total of about $55,000. In the seven following years they received nothing, however, as there were no net profits.

One very common method of paying executives of industrial companies was a salary and in addition a substantial bonus. It is noteworthy that none of the investment companies studied paid cash bonuses to officers after 1931.

Six companies gave options or warrants to their executives at some time prior to 1935, such options or warrants to serve in lieu of or as additions to salary. In 1928 United States and Foreign Securities Corporation and United States and International Securities Corporation made arrangements for the officer who served as president of both companies to be given options as part compensation. These options were to be exercised over a five-year period ending in 1933. The value of options obviously decreases in a period of declining asset value. It is not surprising, therefore, to find that the options given to the president of these companies were not exercised by 1933. The period was extended three years to February 29, 1936.

In the case of two of the other four companies giving options or warrants to executives, no expiration dates were specified. For the remaining two companies the expiration dates had already been passed. In one of these latter companies, no options were exercised, and in the other,

5,000 of the 9,000 options granted had been exercised before June 30, 1935.

It might be noted that the granting of options, warrants, or rights was not limited to executives. Warrants to purchase stock and blocks of stock given to outsiders usually were reported only when they amounted to more than 10% of the issue. Five companies gave options or warrants to their organizers, and one issued options as part of a purchase agreement in a merger. Two firms gave options as part of the service contract with a management company.

Five companies which have been operating at least since 1929 appear to have adopted clear-cut but differing plans for the payment of executives. These companies are Adams Express Company, which paid substantial straight salaries throughout the period; Tri-Continental Corporation, with a salary plan for the company executives and with warrants and management arrangements with J. & W. Seligman & Company; Lehman Corporation, which paid salaries plus a bonus in the form of options on common stock and had management arrangements with Lehman Brothers; Massachusetts Investors Trust, which had a contract with trustees and directors to pay them 5% of gross earnings; and the State Street Investment Corporation, which paid no salaries to officers or directors but paid fees to a separate management corporation.

Brokerage and Legal Services. Investment firms, in addition to having management agreements with outside companies, also are closely associated with brokerage and law firms. In many of the companies studied, at least one member of a law or brokerage firm served as a director of an investment company. Naturally this member shared in the profits made by his firm on services to the investment companies.

Information on the payments to directors, furnished by the investment companies to the Securities and Exchange Commission, frequently included a statement of the

brokerage and legal fees paid. Of the 36 companies, 20 reported brokerage fees for 1935. The 20 companies were of all sizes, 9 being small, 8 medium sized, and 3 large. The brokerage fees differed markedly in amounts, varying with the business transacted.

Conclusion

The recently available statistics on corporate executive compensation and methods of paying officers in separate companies, together with other published data on income and operating expenses for the investment companies, constitute factual material which can be examined individually and collectively. Information secured for the sample of 36 companies surveyed, of course, may not give a complete picture of the expense of management or the executive compensation practices in the entire investment company field. The following tentative conclusions based on material obtained for the 36 firms are limited because of the wide variations shown among the investment companies used in the study; the conclusions are indicative, therefore, rather than definitive.

From 1930 to 1935, typically about 16% of the total income of the investment companies was used for operating expenses. The range of this percentage among individual companies was very wide.

Differences in practices and policies among investment companies are reflected in wide variations in the percentages of income or assets paid annually by the different companies, both for total expense and for executive compensation.

The formal dollar compensation of executive officers of investment companies was substantially below similar payments to officers of industrial and retail companies during the period studied. As with these other companies, however, payments declined substantially during the depression.

Some investment companies had arrangements whereby deferred or additional payments could be made to execu-

tives (or sponsoring banking groups) through options or warrants to purchase stock at future dates. Such rights were accorded in lieu of, or in addition to, regular cash compensation. Their value may be great, but it was clearly contingent upon the successful operation of the business.

CHAPTER VII

THE COMPENSATION OF EXECUTIVE OFFICERS OF STEEL CORPORATIONS: 1928–1936[1]

So far as the subject of executive compensation is concerned, the case of *Berendt v. Bethlehem Steel Corporation*[2] was of historic importance. It revealed in detail the practices, policies, and philosophy of a great corporation in the payment of its executives and precipitated a question which interested stockholders and the public alike. Were these practices characteristic of all corporations, particularly all steel corporations? This question went unanswered (as did similar ones raised by other legal controversies) until after the revelations of the Federal Trade Commission and the Securities and Exchange Commission, which made available for the first time detailed data upon executive compensation of listed corporations. Important problems in the area could then be studied. Among the questions to be considered in the following analysis are: How much are the officers of steel corporations paid? What share of earnings and what percentage of sales go to executives? How much fluctuation occurred in executive payments over a period of years? How do such payments among steel companies compare with those in other industries? What methods were followed in paying executives?

[1] Chapter VII, in slightly different form, appeared originally as an article in the *Harvard Business Review*, Summer, 1937, entitled, "The Compensation of Executive Officers of Steel Corporations."

[2] 154 Atl. 321 (1931).

NOTE: Since the Federal Trade Commission asked for executive compensation data for only nine months of 1933, this year has been excluded from the study. When reference is made to the combined period 1928–1936, it should be understood that this does not include 1933.

Size and Type of Companies Selected for Study

Although statistical information was secured and examined for all the so-called steel companies listed on the New York Stock and Curb Exchanges, this study is limited to the 24 steel companies described as "steel producers." Companies predominantly concerned with iron ore, pig iron, or fabrication or forging of steel were not included. Information was secured not only from Federal Trade Commission and Securities and Exchange Commission records but also from annual reports, listing statements, and similar public sources. The companies chosen differed greatly in size, and in classifying the entire group into 10 large and 14 small companies, both assets and sales were considered, using 1929 figures. Small companies were those with sales less than $50,000,000 and assets less than $90,000,000 in 1929, and large companies were those with sales of $50,000,000 or over and assets of $90,000,000 or over.[1] There appeared to be definite correlation between sales volume and assets, particularly for the large companies.

Of paramount significance in an examination of almost any phase of the steel business is an appreciation of the wide fluctuations in sales and earnings over a period of years. This is particularly true in an analysis of this type, in which executive compensation is to be related to sales

[1] Classification of 24 steel companies by size:

Large Companies	Small Companies
The American Rolling Mill Co.	Allegheny Steel Company
Bethlehem Steel Corporation	A. M. Byers Company
Crucible Steel Co. of America	The Colorado Fuel & Iron Corp.
Inland Steel Company	The Eastern Rolling Mill Co.
Jones & Laughlin Steel Corp.	Follansbee Brothers Company
National Steel Corporation	General Steel Castings Corp.
Republic Steel Corporation	Granite City Steel Company
United States Steel Corp.	Gulf States Steel Company
Wheeling Steel Corporation	Ludlum Steel Co.
The Youngstown Sheet and Tube Co.	The Otis Steel Company
	Pittsburgh Steel Company
	Sharon Steel Hoop Company
	Superior Steel Corporation
	Truscon Steel Company

and earnings. Exhibit 60 indicates annual sales (median) for the 8 small and 7 large companies in the group for which sales figures were available over the entire period 1928–1936.

EXHIBIT 60.—SALES AND FLUCTUATION IN SALES FOR 15 STEEL COMPANIES[1] CLASSIFIED ACCORDING TO SIZE:[2] 1928–1936

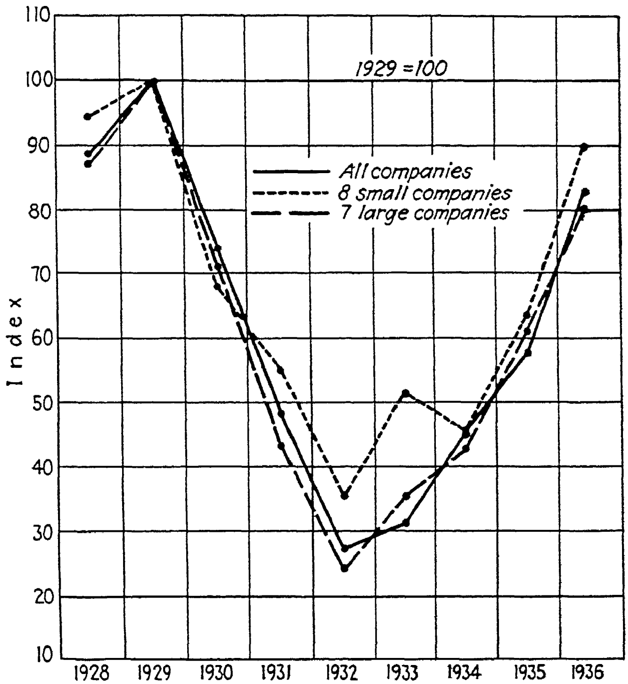
Year	Median dollar sales (unit = $1,000,000)			Fluctuation in dollar sales (relatives; 1929 median sales = 100)		
	All companies (1)	8 small companies (2)	7 large companies (3)	All companies (4)	8 small companies (5)	7 large companies (6)
1928	$33.9	$12.6	$111.3	89	95	88
1929	38.2	13.3	126.7	100	100	100
1930	28.6	9.1	90.4	75	68	71
1931	18.5	7.4	54.9	48	56	43
1932	10.4	4.7	31.0	27	35	24
1933	11.9	6.9	44.9	31	52	35
1934	17.3	6.0	54.5	45	45	43
1935	22.1	8.4	76.8	58	63	61
1936	31.5	11.8	101.5	82	89	80

[1] Sales figures over the period 1928–1936 were available for only 15 of the 24 companies.
[2] Small companies: sales less than $50,000,000 and assets less than $90,000,000 in 1929; large companies: sales $50,000,000 or more and assets $90,000,000 or more in 1929.

The sales peak for all the companies was reached in 1929; from that year sales dropped precipitously to slightly over 25% of this amount in 1932. By 1935 the median had climbed to a position half-way between the 1928 and 1932 levels, and in 1936 sales rose sharply, approaching the 1928 level. Exhibit 60 shows clearly the wide difference in sales volume between the large and the small group, the latter having sales only slightly over one-tenth of those of the large companies in 1929. This relation changed somewhat over the period because sales volume of the small companies on the average resisted depression better than did the sales of the larger companies, perhaps because of character of output. By 1936, however, the 1928–1929 sales relationship appeared to be returning. These tendencies are shown graphically in Exhibit 61.

Although corporate assets might not be expected to fluctuate widely over a short period of years, such fluctuation nevertheless did occur for the steel companies over the period examined, as indicated by Exhibit 62. Median

EXHIBIT 61.—FLUCTUATION IN SALES FOR 15 STEEL COMPANIES[1] CLASSIFIED ACCORDING TO SIZE:[2] 1928–1936
(Relatives; 1929 = 100)



[1] Companies for which figures were available in all the years.

[2] Small companies: sales less than $50,000,000, assets less than $90,000,000 in 1929; large companies: sales $50,000,000 or more, assets $90,000,000 or more in 1929.

assets for the entire group declined steadily and in 1936 were 24% below the 1929 level. No recovery apparently occurred in 1933 when, it should be remembered, sales had risen substantially. In the case of both assets and sales, greater significance should be attached to the median figures for large and small companies than to those for all

the companies, since the line of demarcation between the two size groups, particularly in the second half of the period considered, is decidedly distinct.[1] In 1936, for instance, the largest company in the "small" group had assets of $46,000,000, whereas the smallest company in the "large" group had assets of $109,000,000. Median assets for the small companies fell steadily until 1935, when they amounted to only 63% of the 1929 figure, and then rose slightly in 1936. Among the large companies, median assets declined less, reached their low point sooner, and recovered more vigorously than did those of the small companies. By 1936, assets of the large companies typically had attained the 1929 level.

EXHIBIT 62.—ASSETS AND FLUCTUATION IN ASSETS FOR 18 STEEL COMPANIES[1] CLASSIFIED ACCORDING TO SIZE[2]: 1928–1936

Year	Median assets (unit = $1,000,000)			Fluctuation in assets (relatives; 1929 median assets = 100)		
	All companies (1)	10 small companies (2)	8 large companies (3)	All companies (4)	10 small companies (5)	8 large companies (6)
1928	$52.5	$19.0	$167.5	101	73	96
1929	51.8	26.2	175.0	100	100	100
1930	48.5	24.5	172.0	94	94	98
1931	46.4	22.1	160.9	90	84	92
1932	43.1	20.4	151.8	83	78	87
1933	42.2	19.7	149.1	81	75	85
1934	40.8	18.5	147.0	79	71	84
1935	40.9	16.5	153.9	79	63	88
1936	39.4	18.0	175.7	76	69	100

[1] Comparable asset figures over the period 1928–1936 were available for only 18 of the 24 companies.

[2] Small companies are those with assets less than $90,000,000 in 1929; large companies are those with assets of $90,000,000 or more in 1929.

Executive Compensation in Relation to Sales

The fraction of the sales dollar going to executives is indicated by the relation between sales and executive

[1] Consideration of the firms omitted in preparing the exhibits would not alter this statement.

compensation. Exhibit 63 shows the situation clearly, not only for steel companies but also for the retail organizations and those companies in the sample of 100 industrial companies used in previous chapters for which comparable figures were available, for the years 1928 to 1936. In an interpretation of these percentages over the period, it is important to bear in mind the fluctuation in sales not only by years but by groups. For example, the fluctuation in sales of the steel companies was greater than the fluctuation either in the retail or in the industrial group.

EXHIBIT 63.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF SALES IN STEEL COMPANIES, RETAIL COMPANIES, AND INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO SIZE[1]: 1928–1936

Year	Steel companies[2]				Retail companies[3]				Industrial companies[4]			
	Small companies		Large companies		Chain stores		Department stores		Small companies		Large companies	
	No. (1)	% (median) (2)	No. (3)	% (median) (4)	No. (5)	% (median) (6)	No. (7)	% (median) (8)	No. (9)	% (median) (10)	No. (11)	% (median) (12)
1928	11	0.9	7	0.5	22	0.5	13	0.8	24	0.9	24	0.5
1929	10	0.9	7	0.6	22	0.4	13	0.8	23	0.9	25	0.6
1930	10	1.3	7	0.8	22	0.3	13	0.8	24	1.1	24	0.6
1931	10	1.8	8	0.9	23	0.3	13	1.0	22	1.3	24	0.6
1932	9	2.1	9	1.0	22	0.3	13	1.2	24	1.3	24	1.0
1933	..	*	..	*	..	*	..	*	..	*	..	*
1934[5]	10	1.1	8	0.6	21	0.3	14	1.1	16	1.1	17	0.6
1935[5]	11	0.9	8	0.4	20	0.3	15	1.1	9	1.2	16	0.5
1936	9	0.8	9	0.4	20	0.4	14	0.9	17	1.0	18	0.4

* Data not available.

[1] Variations from year to year in the number of companies are caused by lack of data for certain companies in certain years.

[2] Companies for which figures are available in the sample of 24 companies used in this study. Small companies have sales less than $50,000,000 and assets less than $90,000,000 in 1929; large companies have sales of $50,000,000 or more and assets of $90,000,000 or more in 1929.

[3] Companies for which figures are available in the sample of 38 companies used in Chaps. IV and V.

[4] Companies for which figures are available in the sample of 100 industrial companies used in Chaps. II and III, classified according to median assets in 1929, $27,517,000. Small companies are those with assets less than this median, and large companies are those with greater assets. In arriving at the medians for 1934, 1935, and 1936, only those companies were considered which had usable data available for 1928–1932.

[5] Revised figures.

Two variables are present in these percentage figures: executive compensation, which fluctuated widely, and sales, which declined precipitately from 1929 to 1932, then reversed the downward trend and began to increase. Little explanation of the exhibit is necessary. It is sufficient to point out that in most groups the highest percentage of the consumer's dollar was paid to executives in 1932, a fact which indicated clearly that relatively smaller reductions had occurred in executive compensation than in sales. The wide fluctuation of percentage payments is most pronounced in the steel group and least in the chain store group. This may be explained by sales volume; steel sales declined drastically because of the type of business, and chain store sales only moderately, because, although sales per store declined, many new stores were opened to offset losses in volume.

It is also significant that the percentage of sales paid as executive compensation by the small steel companies was higher than that paid by the large steel companies. In 1935 and 1936, the percentages paid were as low or lower for both groups than during any other period in this study.

Exhibit 64 is included chiefly to indicate the wide range in the percentages of executive compensation to sales among the companies over the 1928–1936 period. The variations were so wide as to suggest the need for a careful examination of these payments by a number of the companies.

In previous chapters more emphasis has been placed on earnings in relation to executive compensation than in this study. For example, the share of earnings (as herein defined) going to executives was contrasted with the share going to stockholders. Such annual comparisons in this study are impossible because of the large number of company deficits appearing in 1931, 1932, and 1934. More emphasis, therefore, is placed on the relation between executive compensation and sales.

EXHIBIT 64.—EARNINGS[1] AS A PERCENTAGE OF SALES: 1929; EXECUTIVE COMPENSATION AS A PERCENTAGE OF SALES: 1928–1936,[2] FOR EACH OF 24 STEEL COMPANIES

(Companies are ranked according to the percentage of earnings to sales in 1929)

Company	Earnings, % of sales	Executive compensation, % of sales								
	1929	1928	1929	1930	1931	1932	1933	1934	1935	1936
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Superior Steel Corporation	4.1	0.9	0.9	1.3	1.8	2.4	*	1.8	1.2	1.0
Sharon Steel Hoop Company	7.9	0.6	0.5	1.1	1.6	2.1	*	1.3	1.2	0.8
Truscon Steel Company	8.0	0.7	0.6	0.9	1.2	1.5	*	1.0	0.9	*
The Eastern Rolling Mill Co	9.1	1.1	1.1	1.6	2.4	*	*	1.1	0.7	0.7
Granite City Steel Company	11.3	0.4	0.3	0.5	0.6	0.9	*	*	0.8	0.6
Follansbee Brothers Company	11.4	0.9	0.9	1.4	1.9	2.6	*	*	*	*
Wheeling Steel Corporation	11.5	0.2	0.2	0.2	0.3	0.4	*	0.5	*	0.4
The American Rolling Mill Co	11.5	0.6	0.6	0.9	0.9	1.1	*	0.6	0.4	0.5
Allegheny Steel Company	12.5	1.1	1.1	1.5	1.8	1.4	*	0.9	1.2	0.8
Ludlum Steel Co	13.5	2.4	1.7	2.8	2.8	4.2	*	*	2.5	1.6
Gulf States Steel Company	14.5	1.0	0.8	0.8	0.8	1.1	*	0.9	0.7	0.6
The Youngstown Sheet and Tube Co.	15.9	0.4	0.2	0.7	1.0	1.0	*	0.4	0.4	0.3
Bethlehem Steel Corporation	16.8	0.8	1.2	1.0	0.7	1.1	*	0.6	0.5	0.3
Jones & Laughlin Steel Corp	17.9	0.9	1.0	0.8	1.1	1.9	*	1.0	0.5	0.4
Inland Steel Company	19.6	0.5	0.6	0.8	1.1	1.8	*	0.9	0.8	0.6
A. M. Byers Company	20.6	1.0	1.1	1.2	1.9	4.1	*	2.8	*	1.9
United States Steel Corp	21.8	0.1	0.1	0.1	0.2	0.3	*	0.2	0.2	0.1
The Colorado Fuel & Iron Corp	*	0.5	*	*	*	*	*	*	*	*
Crucible Steel Co. of America	*	*	*	*	*	*	*	*	*	*
General Steel Castings Corp	*	*	*	*	*	*	*	1.7	3.4	*
National Steel Corporation	*	*	*	*	*	0.4	*	0.3	0.5	0.5
The Otis Steel Company	*	*	*	*	*	*	*	0.6	0.5	0.6
Pittsburgh Steel Company	*	*	*	*	*	*	*	1.0	0.5	*
Republic Steel Corporation	*	*	*	*	0.8	0.9	*	*	0.4	0.3
Median:										
All companies	12.5	0.8	0.8	0.9	1.1	1.2	*	0.9	0.7	0.6
Small companies[3]	11.3	0.9	0.9	1.3	1.8	2.1	*	1.1	0.9	0.8
Large companies[3]	16.8	0.5	0.6	0.8	0.9	1.0	*	0.6	0.4	0.4

* Data not available.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but prior to executive compensation and interest.

[2] Figures for 1928 through 1932 were based on data furnished by individual companies to the Federal Trade Commission, while those for 1934, 1935, and 1936 were based on figures reported to the Securities and Exchange Commission. In some instances, it appeared desirable to adjust the figures for 1934, 1935, and 1936 in order to make them more nearly comparable with those available for the earlier years. Several of the compensation figures for 1934, 1935, and 1936, therefore, are estimates.

[3] Small companies: sales less than $50,000,000, assets less than $90,000,000 in 1929; large companies: sales $50,000,000 or more, assets $90,000,000 or more in 1929.

Fluctuation in Executive Employment and in Bonus Payments

A tabulation of the number of officers reported in successive years by individual companies disclosed some year-to-year variations in the number of executives per company; this figure ranged in any one year from 5 or fewer to 21 or more. In the prosperous year 1928 as many as 27 executives were listed by one firm, while in the depression years 1931–1933 another firm had only 3. Except in a few instances, however, the number per company fluctuated little from year to year. The median number of executives per company for the entire group was 9 each year from 1929 to 1935, with the exception of 1933, when it decreased to 8; and in 1936 the median number rose to 11. This indication that executive employment displayed great steadiness is substantiated by a comparison of the total number of executives employed by the 24 steel companies during the years 1929 and 1932.

An entirely different picture is revealed, however, by a study indicating the number of companies continuing bonus plans and paying bonuses in addition to salaries during the 1928–1932 period.[1] In 1929, 15 or about two-thirds of the companies had bonus plans in operation; by 1932 only 9 companies used such plans. This decline, drastic though it is, appears small compared to the decline in the number of executives receiving bonuses between 1929 and 1932. In 1929 about 42% of all executives in the group received bonuses; by 1932 this number had declined to 6.5% of almost the identical number of executives. This decrease was substantially greater in the steel group than in the retail or industrial group. Its significance may be expressed in another way: in 1929, 15% (median) of executive compensation was in the form of bonus payments, and by 1932 these payments for the majority of the companies had entirely disappeared; during this period executive compensation typically had declined about 32%.

[1] Information on bonus plans and payments could be secured from the Federal Trade Commission for the period 1928–1932 only.

Executive Compensation Practices of Individual Companies

Exhibit 65 indicates median percentages of executive compensation in relation to earnings and sales, and earnings as a percentage of sales, for the group of 24 steel companies in 1929, as well as the median number of individuals considered as executives. The medians fail to indicate the wide fluctuation in percentages among the companies for all the items examined. Executive compensation as a percentage of earnings ranged from less than 0.5% to over 23%, the

EXHIBIT 65.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS[1] AND SALES, EARNINGS AS A PERCENTAGE OF SALES, AND NUMBER OF EXECUTIVES PER COMPANY, FOR 24 STEEL COMPANIES CLASSIFIED ACCORDING TO SIZE:[2] 1929
(Median figures)

Items	Executive compensation		Earnings, % of sales	Number of executives per company
	% of earnings	% of sales		
	(1)	(2)	(3)	(4)
All companies	5.8	0.8	12.5	9
14 small companies	7.4	0.9	11.3	7
10 large companies	4.1	0.6	16.8	15

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but prior to executive compensation and interest.

[2] Small companies: sales less than $50,000,000, assets less than $90,000,000 in 1929: large companies: sales $50,000,000 or more, assets $90,000,000 or more in 1929.

median being 5.8%. The median for large companies is slightly over 4% and for small companies over 7%. Executive compensation related to sales in 1929 displayed a spread from 0.1% to 1.7% as shown in Exhibit 64, the median for all companies being 0.8%, for the large companies, 0.6%, and for the small companies, 0.9%. Executive compensation as related both to earnings and to sales reveals a lower percentage going to executives of the large companies than to those of the small companies. Earnings as a percentage of sales also shows wide dispersion, the figures ranging all the way from 4.1% to 21.8%.

Comparison of Compensation, Earnings, Dividends, and Interest

The distribution of earnings is summarized in Exhibit 66, and trends for executive compensation, interest, balance available for dividends, earnings, and total dividends are indicated from 1928 to 1936, for the group as a whole, and for large and small companies. In considering the distribution of earnings in column 1, it is noteworthy that executive compensation absorbed 5.8% in 1929, which compares with the average of 6.6%, in the study of 100 industrial companies, as shown in Exhibit 11 in Chapter III (pages 30–31). Interest payments not only are a much larger percentage of earnings than is executive compensation in this group of companies, but also they take a much larger share than they do in any of the other groups of companies examined. Similar figures for small and large companies suggest that a higher percentage of earnings goes to executives of the small companies. The percentage going to interest in the large companies, however, was higher than that in the small companies.

The balance available for dividends was 85.6% of earnings in 1929 for the large companies, as compared with 83.6% for the small companies. The distribution of earnings as dividends varied little between the two groups, 39.9% going to stockholders of the small companies and 36.9% to the stockholders of the large companies.

Column 1 contrasted with column 12 reveals an interesting picture. Since the figures in column 12 are for the combined period, they are far more significant than those in column 1, which relate only to a single year and a very prosperous one. The story revealed by the figures should be examined carefully. About 50% more earnings went to executives over the period than for the year 1929. Also interest charges absorbed about 40% of earnings for the period, as contrasted with 10% in 1929; finally, the balance available for dividends for the period was 53% as contrasted with 84% in 1929.

EXHIBIT 66.—EXECUTIVE COMPENSATION,[1] INTEREST, BALANCE AVAILABLE FOR DIVIDENDS, EARNINGS,[2] AND TOTAL DIVIDENDS FOR STEEL COMPANIES CLASSIFIED ACCORDING TO SIZE:[3] PERCENTAGES OF EARNINGS, 1929, 1936, AND 1928–1936 COMBINED;[4] INDEX NUMBERS, 1928–1936
(Median figures)

Items	% of earnings	Index numbers; 1929 = 100									% of earnings	% of earnings, 12 companies only
	1929	1928	1929	1930	1931	1932	1933	1934	1935	1936	1936	1928–1936 combined
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
All companies:												
Executive compensation	5.8	90	100	93	77	65	*	69	75	84	6.4	8.9
Interest	9.9	102	100	97	97	99	96	95	96	111	21.2	39.3
Balance available for dividends	84.3	71	100	33	*Loss 33*	*Loss 48*	*Loss 20*	*Loss 3*	16	50	72.5	52.5
Earnings	100.0	75	100	45	*Loss 11*	*Loss 33*	*	11	35	59	100.0	100.0
Total dividends	39.4	76	100	95	47	6	0	0	8	46	43.7	46.1
Small companies:												
Executive compensation	7.4	101	100	93	76	65	*	61	76	85	10.5	
Interest	8.6	101	100	94	96	99	96	95	96	95	10.7	
Balance available for dividends	83.6	72	100	*Loss 30*	*Loss 56*	*Loss 64*	*Loss 31*	*Loss 9*	35	54	75.1	
Earnings	100.0	75	100	*Loss 10*	*Loss 33*	*Loss 44*	*	*Loss 6*	39	61	100 0	
Total dividends	39.9	68	100	87	23	0	0	0	0	38	40.8	
Large companies:												
Executive compensation	4.1	85	100	97	81	69	*	72	75	80	4.2	
Interest	12.1	106	100	99	112	100	106	103	103	129	21 5	
Balance available for dividends	85.6	66	100	47	*Loss 18*	*Loss 39*	*Loss 15*	1	13	48	72.5	
Earnings	100.0	71	100	49	*Loss 5*	*Loss 25*	*	15	23	57	100.0	
Total dividends	36.9	85	100	105	56	7	0	0	11	57	43.7	

* Data not available.

[1] Since information secured for 1934, 1935, and 1936 from the Securities and Exchange Commission was not comparable with that secured for 1928–1932 from the Federal Trade Commission, the figures for executive compensation in columns 8–12 are based in part on estimates arrived at by comparison of material from both sources.

[2] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[3] Companies used are those in the sample of 24 companies for which data were available in the various years. Small companies are those with sales less than $50,000,000 and assets less than $90,000,000 in 1929; large companies are those with sales of $50,000,000 or more and assets of $90,000,000 or more in 1929.

[4] Since there were not sufficient data available for 1933, this year has been omitted from the period. The 12 companies are those which reported data for all the years considered; for so few companies a median for each size classification would not be significant.

The year-to-year fluctuations in the actual dollar amounts of the five items being examined, as shown in columns 2 to 10 inclusive, indicate a rise for all items from 1928 to 1929, with the exception of interest payments. These declined very little during the period 1928–1934, then started to rise, and in 1936 were 11% above the 1929 level; their lowest point was in 1934 when they were 5% below 1929.

The fluctuation in executive compensation over the period, shown in the same columns, is most significant. For the group as a whole, payments rose from 1928 to 1929 and then declined steadily to 1932 when they were 35% below 1929. By 1935 payments had risen 10 points, and by 1936 they were only 16% below 1929. It should be noted that differences in policies existed between large and small companies in certain years. Of marked significance, again, are the deviations from the medians among the individual companies. Of the 16 companies for which figures are available for both 1929 and 1936, 9 show declines of substantial proportion. Seven, however, paid larger total amounts to executives in 1936 than in 1929; and three paid about one-half or less in 1936 as contrasted with 1929.

Catastrophic changes occurred in balance available for dividends, earnings, and total dividends. Since from 1930 to 1933 there were large deficits, the first two items disappear. However, in 1934 earnings reappear timidly, and in 1935 both items show substantial increases. In the years 1934, 1935, and 1936, there was a reversal in the trend of several of the items; by 1936 earnings had climbed to over one-half the 1929 level, while total dividends were up to almost half of that year's level.

The percentage of total dividends to earnings as defined, compared with the percentage of executive compensation, indicates that in 1929 stockholders received nearly seven times as much as executives, and for the period over five times as much.

Small and large companies in 1929 followed somewhat similar policies in the amount of dividends paid, although

the decline in small companies was more precipitous than in large companies. In 1932 payments typically had disappeared for small companies and were down to 7% of 1929 for large companies. In 1935 dividend payments had been resumed by large companies and were slightly higher than in 1932. In 1936 both large and small companies had substantially increased dividend payments, large companies paying slightly over half the amount paid in 1929 and small companies somewhat over one-third the amount paid in that year.

To use the percentage of total dividends to earnings as defined for any other purpose except the above comparison would be misleading. In Exhibit 67, total dividends as a percentage of balance available for dividends (*i.e.*, earnings after executive compensation, interest, and all other charges) is given in comparison with total dividends as a percentage of earnings as defined for this study. In 1929 the entire group paid to stockholders 46.5% of the balance available for dividends (the commonly accepted earnings figure), and for the period they paid out 93.7%.

The percentage of total dividends to balance available for dividends for 12 companies for the combined period indicates clearly that as a rule, over good and bad years, taking bonded indebtedness into account, not too much but rather too little was being "plowed back" by the steel companies. This "perspective of years" reveals clearly the fallacy of basing any conclusions regarding corporate dividend policies simply on one year. Incidentally it may mean, so far as the steel companies are concerned, that the new tax law will, over a period of years, tend to reduce the payment of dividends instead of increasing them.

Among the index figures of importance in Exhibit 66, when segregated into large and small companies, are those indicating the substantial increase in interest payments of large companies in 1936 as compared with 1930, the low period, and the annual decline in balance available for dividends among small companies when contrasted with

large companies. The so-called small companies appear to have had greater losses for a longer period of years than the large companies.

The significance of Exhibit 66 can hardly be overemphasized. One criticism, however, might be directed

EXHIBIT 67.—TOTAL DIVIDENDS AS A PERCENTAGE OF EARNINGS[1] AND BALANCE AVAILABLE FOR DIVIDENDS FOR STEEL COMPANIES CLASSIFIED ACCORDING TO SIZE:[2] 1929, 1936, AND 1928–1936 COMBINED[3]

Items	All companies	Small companies	Large companies
1929			
Number of companies	21	13	8
Total dividends:			
Percentage of earnings	39.4	39.9	36.9
Percentage of balance available for dividends	46.5	49.2	44.1
1936			
Number of companies	17	8	9
Total dividends:			
Percentage of earnings	43.7	40.8	43.7
Percentage of balance available for dividends	53.8	51.2	53.8
1928–1936 combined[3]			
Number of companies[4]	12		
Total dividends:			
Percentage of earnings	46.1		
Percentage of balance available for dividends	93.7		

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] Companies used are those in the sample of 24 companies for which data for both items were available in the various years. Small companies are those with sales less than $50,000,000 and assets less than $90,000,000 in 1929; large companies are those with sales of $50,000,000 or more and assets of $90,000,000 or more in 1929.

[3] Since there were not sufficient data available for 1933, this year has been omitted from the period.

[4] The 12 companies used are those which reported data for all the years considered; for so few companies a median for each size classification would not be significant.

toward it; namely, that the number of companies varies somewhat from year to year according to the information available. To meet this criticism, Exhibit 68 gives similar information, with the exception of fluctuation figures, for the 12 companies making available strictly comparable data for the periods studied. The noteworthy point is that so little difference appears between figures in this exhibit and in Exhibit 66, except in the case of interest, data regard-

ing which were the most difficult to secure and the least satisfactory.

EXHIBIT 68.—EXECUTIVE COMPENSATION, INTEREST, BALANCE AVAILABLE FOR DIVIDENDS, AND TOTAL DIVIDENDS AS A PERCENTAGE OF EARNINGS[1] FOR 12[2] STEEL COMPANIES: 1929, 1936, AND 1928–1936 COMBINED
(Median figures)

Items	% of earnings		
	1929	1936	1928–1936 combined
Executive compensation	5.4	5.8	8.9
Interest	15.1	22.8	39.3
Balance available for dividends	86.2	72.4	52.5
Earnings	100.0	100.0	100.0
Total dividends[3]	36.9	41.2	46.1

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] Companies for which figures were available for each year of the period covered except 1933, when complete compensation data could not be secured.

[3] Figures for the same 12 companies for total dividends as a percentage of balance available for dividends are: 1929, 44.1%; 1936, 54.5%; 1928–1936 combined, 93.7%.

Dollar Compensation of Executives

Thus far in this study the payment of executive officers of steel companies has been examined in relation either to sales or to earnings. There remains to be considered, therefore, the actual dollar amounts paid to such executives.

Because the Securities and Exchange Commission requested an itemization of total compensation for only the three men receiving the highest remuneration, it was again necessary, as in the case of the investment companies in the previous chapter, to limit the detailed analysis of dollar payments to those received by these three men; also the year 1933 had to be omitted, since the Federal Trade Commission requested information for only nine months of that year. Exhibit 69 gives median dollar figures for the three highest paid executives in each year, with the exception of 1933, for all companies and for small and large companies for which such data were available.

EXHIBIT 69.—TYPICAL DOLLAR COMPENSATION OF THREE HIGHEST PAID EXECUTIVES ACCORDING TO SALARY RANKING IN INDIVIDUAL COMPANIES, FOR STEEL COMPANIES CLASSIFIED ACCORDING TO SIZE: 1928–1936

Ranking of executives	No. of companies[1]			Median amount (unit = $1,000)			% of median compensation of highest paid executive		
	All companies	Large companies	Small companies	All companies	Large companies	Small companies	All companies	Large companies	Small companies
1928	21	8	13						
Highest paid executive	..	..	..	$60.0	$211.4	$36.0	100	100	100
Second highest paid executive	..	..	..	31.7	84.4	21.0	53	40	58
Third highest paid executive	..	..	..	24.0	54.4	17.3	40	26	48
1929	21	8	13						
Highest paid executive	..	..	..	64.2	160.0	36.0	100	100	100
Second highest paid executive	..	..	..	35.0	92.5	22.8	55	58	63
Third highest paid executive	..	..	..	22.0	59.5	20.0	34	37	56
1930	23	9	14						
Highest paid executive	..	..	..	60.0	200.0	34.4	100	100	100
Second highest paid executive	..	..	..	48.2	105.0	23.2	80	53	67
Third highest paid executive	..	..	..	35.0	63.0	18.2	58	32	53
1931	24	10	14						
Highest paid executive	..	..	..	45.2	170.0	29.6	100	100	100
Second highest paid executive	..	..	..	38.8	80.4	21.6	86	47	73
Third highest paid executive	..	..	..	27.4	54.6	17.7	61	32	60
1932	24	10	14						
Highest paid executive	..	..	..	39.8	94.3	28.0	100	100	100
Second highest paid executive	..	..	..	28.0	52.5	18.1	70	56	65
Third highest paid executive	..	..	..	19.1	49.7	12.6	48	53	45
1933	..	..	..						
Highest paid executive	..	..	..	*	*	*			
Second highest paid executive	..	..	..	*	*	*			
Third highest paid executive	..	..	..	*	*	*			
1934	17	7	10						
Highest paid executive	..	..	..	47.8	53.7	32.3	100	100	100
Second highest paid executive	..	..	..	30.2	50.0	16.4	63	93	51
Third highest paid executive	..	..	..	20.7	40.8	13.0	43	76	40
1935	18	8	10						
Highest paid executive	..	..	..	52.3	105.0	27.9	100	100	100
Second highest paid executive	..	..	..	30.1	67.6	16.6	58	64	59
Third highest paid executive	..	..	..	24.9	56.0	12.9	48	54	46
1936	19	9	10						
Highest paid executive	..	..	..	62.5	114.7	34.0	100	100	100
Second highest paid executive	..	..	..	50.0	84.8	22.9	80	74	67
Third highest paid executive	..	..	..	36.1†	60.0	12.9†	58	52	38

* Data not available.

† The third highest paid man in one of the small companies was not an executive as defined for this study.

[1] Variations in the number of companies from year to year is caused by lack of data. Small companies are those with sales less than $50,000,000 and assets less than $90,000,000 in 1929; large companies are those with sales of $50,000,000 or more and assets of $90,000,000 or more in 1929.

For all the companies examined, the highest median compensation was paid in 1929; the amount declined steadily until it was slightly below $40,000 in 1932. In 1934, 1935, and 1936 increases occurred. This over-all average for the highest paid man is not nearly so significant, however, as the same figure for large and small companies, which leaves no doubt that corporate size, irrespective of earnings, has a substantial effect on the payment of executives. For example, in 1929, the peak in the median amount going to the highest paid man for all companies, the median for small companies was $36,000 and for large companies $160,000; and in 1928 and 1930, when the median for the highest paid man in small companies ranged around $36,000, the median amount going to the highest paid executive of large companies was around $200,000. Sharper declines, however, occurred for the large companies than for the small companies. Similar interesting observations may be made about the compensation of the second and third highest paid men after study of Exhibit 69. The spread in payments to executives of similar compensation ranking in the two size groups was always wide, the officer of the smaller companies receiving often as little as one-third or one-fifth the amount paid to the officer of the larger companies. In 1936 such substantial increases occurred in payments to executives, in both large and small steel corporations, that they approached 1929 levels.

Percentage figures in Exhibit 69 also indicate the spread in payments among the first, second, and third highest paid men. These varied from year to year, and the only general conclusion to be reached about the spread is that it tended to be regular and substantial. A separate analysis of the fluctuation in the aggregate payments by individual companies to the three highest paid executives, as well as medians for the entire group and for small and large companies, is given in Exhibit 70. Indications are that most companies paid highest compensation in 1929, and that compensation for all declined thereafter until 1932. Fur-

thermore, the decline in the compensation of the three highest paid executives in large companies fell more rapidly and remained at a low level after substantial increases

EXHIBIT 70.—FLUCTUATION IN AGGREGATE COMPENSATION OF THE THREE HIGHEST PAID EXECUTIVES IN EACH OF 24 STEEL COMPANIES: 1928–1936

Company	Compensation of the three highest paid executives (relatives; 1929 = 100)								
	1928	1929	1930	1931	1932	1933	1934	1935	1936
Allegheny Steel Company	59	100	100	68	32	*	54	†	†
American Rolling Mill Co. (The)	93	100	124	92	79	*	92	108	158
Bethlehem Steel Corporation	52	100	63	26	22	*	*	20	19
A. M. Byers Company	94	100	69	67	80	*	65	*	64
Colorado Fuel & Iron Corp. (The)	88	100	85	70	57	*	*	*	*
Crucible Steel Co. of America	85	100	91	67	62	*	*	*	*
Eastern Rolling Mill Co. (The)	113	100	88	84	65	*	45	43	43
Follansbee Brothers Company	100	100	96	83	62	*	*	*	*
General Steel Castings Corp.[1]	*	*	*	*	*	*	*	*	*
Granite City Steel Company	103	100	89	83	85	*	*	121	122
Gulf States Steel Company	91	100	90	87	75	*	82	84	100
Inland Steel Company	93	100	93	72	62	*	77	92	99
Jones & Laughlin Steel Corp	73	100	64	54	50	*	47	19	26
Ludlum Steel Co	90	100	93	80	71	*	*	148	145
National Steel Corporation[1]	*	*	*	*	*	*	*	*	*
Otis Steel Company (The)	87	100	102	69	43	*	40	48	64
Pittsburgh Steel Company	102	100	95	84	72	*	66	46	*
Republic Steel Corporation[1]	*	*	*	*	*	*	*	*	*
Sharon Steel Hoop Company	94	100	117	102	93	*	95	135	125
Superior Steel Corporation	93	100	113	111	88	*	94	90	102
Truscon Steel Company	95	100	113	90	73	*	49	50	*
United States Steel Corp	85	100	112	90	73	*	59	64	62
Wheeling Steel Corporation	79	100	98	77	68	*	158	*	158
Youngstown Sheet and Tube Co. (The)	203	100	236	188	71	*	56	69	70
Median:									
All companies	93	100	95	83	71	*	62‡	77‡	99
Small companies	94	100	95	83	72	*	65	84	101
Large companies	85	100	95	75	65	*	59‡	69‡	70

* Data not available.
† The third highest paid man was not an executive as defined for this study.
‡ In arriving at this median, an estimated figure for one company has been used.
[1] Company not operating in 1929.

occurred among the smaller companies. The conclusions from this exhibit agree with those reached from Exhibit 65 (page 145) concerning aggregate payments for all executives.

Methods of Paying Executives

The question of how executives should be paid has, with the publication of salary data, become more and more important. Although it is not the purpose of this study to dwell at great length on this point, nevertheless some mention needs to be made of the methods followed in the steel industry. At least 10 of the 24 companies had definite bonus plans for executives, and there are indications that 10 others pay bonuses without a definite plan.[1] From this it can be concluded that the payment of bonuses is characteristic of the industry. Fourteen of these companies also had stock-purchase plans in addition to cash bonus plans. Such plans gave rights or options to officers and employees to purchase stock on an attractive basis. The possibility of profits from such schemes was very great. For example, the stock of one company, which had options outstanding among its employees in 1929 to purchase stock at $11, was selling at $175 per share. The two largest units in the steel industry, the United States Steel Corporation and the Bethlehem Steel Corporation, had executive bonus plans from the founding of the two companies up to 1935, when the United States Steel Company abrogated its plan, and at the present time has none in effect. Because of dissatisfaction among stockholders, the Bethlehem Steel Company revised its bonus plan several times and in 1937 had a revised plan in force.

The variation among the bonus plans was very great. Surprising as it may seem, very few of the plans had been approved by stockholders, and only four of the companies with plans reported to stockholders the amount of annual bonus payments to executives. Information to stockholders concerning these plans has been exceedingly meager, and often their existence was only suggested by a stray balance sheet item. Many of the plans lapsed during the depression. The only steel company which paid a bonus

[1] For a detailed discussion of executive bonus plans, see Chap. IX.

during the depression had a contract with one of its executives for a fixed salary and, in addition, a guaranteed minimum bonus of $150,000 annually. Eight of the companies included many employees under their plans and 13 included only a few, with "few" being defined as from one to five officers. Although companies were classified as paying a bonus to many when they so paid over five men, nevertheless most of the companies in this group really paid bonuses to a substantial number of their officers and employees. Two of the plans became effective only after preferred dividends had been earned, and three after there had been minimum specified earnings.

The chief purposes of these plans appear to be not only to permit officers to share in substantial earnings, but also to insure the continuous service of the chief officers of the companies.

Conclusion

One conclusion stands out clearly from the foregoing study of the compensation of executive officers of steel companies: *viz.*, that what has been revealed by litigation in court on this subject is extreme, and, for the most part, exceptional. It is in no way characteristic of present-day practices. Another conclusion is that among steel companies total executive compensation is only a small percentage of the consumer's dollar, varying over the 1928–1936 period for small companies from 0.8% to 2.1%, and for large companies from 0.4% to 1.0%. Variations among companies were exceedingly wide, a fact which indicates the need for more flexible compensation policies.

The ratio of executive compensation to earnings (as herein defined) was, for the entire group in 1929, 5.8%; for small companies, 7.4%; and for large companies, 4.1%. Over the entire 1928–1936 period, however, the picture changed because of the many years with low earnings. During this period 8.9% of all the earnings went to executives. Among the companies the range fluctuates widely,

even in one year; for example, in 1936 it varied from 1.5% for one company to 28.7% for another.

Another interesting comparison permitted by this study is that between executive compensation and dividends paid. Shareholders on the average for the entire period 1928–1936 received over five times the amount received by executives.

By interpreting earnings according to the commonly accepted definition (*i.e.*, after executive compensation and interest), and by relating them to the payment of dividends—a much discussed issue today—the discovery is made that steel companies as a group paid out in dividends 94% of their earnings during the years 1928–1936.

Executive compensation fluctuated widely over the period, and in 1932 was 35% below 1929. In 1935 it was 25% below, and in 1936, 16% below.

The actual annual cash payments to steel executives as a rule compare favorably with similar payments in industry and retailing. When the companies are classified according to size, however, it is clearly indicated that large steel companies pay their top executives higher salaries than do large retail or industrial companies.

CHAPTER VIII

EXECUTIVE COMPENSATION IN LARGE CORPORATIONS: 1928–1936[1]

Previous studies indicate clearly that corporate size as measured by assets affects compensation payments. This appeared so significant that a group of the largest American industrial corporations were examined to secure a picture of such payments. Of the 84 such corporations in the Berle and Means list,[2] 59 with adequate statistical data available were selected for analysis. The median assets figure for the group in 1929 is $178,000,000 and in 1936, $173,000,000; the median sales volume, $157,000,000 and $125,000,000. Exhibit 71 indicates the wide range in assets and sales volume among the individual companies.

Executive Employment

A review of the information submitted to the two commissions reveals clearly that the number of executives varied among the companies, as well as from year to year in individual companies. Certain companies reported in 1929 as few as 4 executives and others as many as 27, the number varying roughly with corporate size and with the importance of executives of subsidiaries in the management of the parent company. In examining changes in executive compensation for a specific company over the period, allowance should be made for changes in the number of executives employed. The annual median number of officers per company, however, given in Exhibit 72, varies from 12 to

[1] Since complete data were not available for the year 1933, in analyses covering the period this year has been excluded, unless otherwise stated.

[2] Berle, A. A., Jr., and Means, G. C., *The Modern Corporation and Private Property*, New York, The Macmillan Company, 1933, pp. 19–24.

13, indicating, as in previous studies, little fluctuation in the entire executive group.

Fluctuation in Sales

Sales volume varied substantially, not only among the companies analyzed but also in the same companies over the 1928–1936 period. The extent of this fluctuation is important in connection with the study of percentages of compensation to sales during these years. Exhibit 73 presents typical annual sales figures and indices from 1928 through 1936 for 35 of the companies. Typical sales for the group reached their low point in 1932 and 1933, when they were only about half as large as in 1929. This decline would have appeared far less precipitous if 1928 had been the base year for the median. The wide swings in gross income and sales definitely affect the percentage of executive compensation to sales, which should be borne in mind when considering such percentages in Exhibit 74.

In Exhibit 74 median figures for executive compensation as a percentage of sales are presented, together with an indication of the extreme ranges of the figures, for a group of companies publishing sales data for the entire period.[1] Considering business conditions and the fluctuation in sales over the period, the medians reveal surprisingly uniform percentages, varying by only 0.1%. The companies having small assets paid a slightly higher percentage of sales to executives than the companies in the large asset group, and they show substantially wider fluctuation in ranges.

Although the medians indicate that the percentage of executive compensation to sales varies little from year to year, nevertheless wide fluctuation, as indicated in Exhibit 74, occurs in the range of percentages forming the medians, suggesting that in certain companies too large a part of the sales dollar went to the executive group. Also it is impor-

[1] For this exhibit the corporations were divided into two groups, those having assets above the 1929 median, and those having assets below the 1929 median.

EXHIBIT 71.—ASSETS AND SALES OF EACH OF 59 LARGE INDUSTRIAL COMPANIES:[1] 1929 AND 1936
(Unit = $1,000,000)

Company	Assets, end of fiscal year		Sales,[2] fiscal year	
	1929	1936	1929	1936
American Locomotive Company	$ 106	$ 56	*	*
American Radiator & Standard Sanitary Corporation	199	162	$ 145	$ 101
American Rolling Mill Company (The)	104	129	70	101
American Smelting and Refining Company	241	161	*	*
American Sugar Refining Company (The)	157	118	(143)	*
American Tobacco Company (The)	265	255	*	*
American Woolen Company	114	79	*	(71)
Anaconda Copper Mining Company	681	592	306	161
Atlantic Refining Company (The)	166	166	154	113
Bethlehem Steel Corporation	802	661	343	288
Borden Company (The)	175	124	328	239
Chrysler Corporation[3]	(210)	(211)	(375)	(667)
Consolidated Oil Corporation	396	339	199	215
Continental Oil Company	197	97	82	76
Corn Products Refining Company	127	120	*	*
Crucible Steel Company of America[3]	(124)	(111)	*	*
E. I. du Pont de Nemours & Company	497	623	*	(260)
Eastman Kodak Company	163	171	*	(120)
Firestone Tire & Rubber Company (The)	162	147	145	136
General Electric Company[3]	(492)	(364)	(415)	(269)
General Motors Corporation[3]	(1,061)	(1,196)	(1,504)	(1,439)
B. F. Goodrich Company (The)[3]	(163)	(141)	(164)	(141)
Goodyear Tire & Rubber Company (The)	243	197	256	186
Inland Steel Company	103	138	69	99
International Harvester Company	384	399	*	(255)†
International Shoe Company	111	86	132	85
Jones & Laughlin Steel Corporation	222	221	127	94
Kennecott Copper Corporation	338	335	116	106
S. S. Kresge Company	109	121	157	150
Liggett & Myers Tobacco Company	150	176	*	*
Loew's Incorporated[3]	(124)	(139)	(116)	(109)
R. H. Macy & Co., Inc.	75	93	136	130
Marshall Field & Company	142	90	180	104
Montgomery Ward & Co., Incorporated	188	207	267	361
National Dairy Products Corporation	178	200	300	329
National Lead Company	108	101	*	(79)
Ohio Oil Company	111	138	83	53
Phelps Dodge Corporation	125	187	39	65
Phillips Petroleum Company	145	188	51	105
Pittsburgh Coal Company	172	140	45	46
Procter & Gamble Company[3]	(130)	(147)	(192)	(219)
Pure Oil Company	215	163	77	106

EXHIBIT 71.—ASSETS AND SALES OF EACH OF 59 LARGE INDUSTRIAL COMPANIES:[1] 1929 AND 1936.—(*Continued*)

Company	Assets, end of fiscal year		Sales,[2] fiscal year	
	1929	1936	1929	1936
Radio Corporation of America	$ 159	$ 88	$ 177	$ 100
R. J. Reynolds Tobacco Company	144	157	*	*
Sears, Roebuck and Co.	252	275	403	495
Shell Union Oil Corporation	486	371	*	(232)
Standard Oil Company of California	605	582	*	(153)
Standard Oil Company (New Jersey)	1,767	1,842	1,523	1,162
Texas Corporation (The)	610	540	*	(333)
Tide Water Associated Oil Company	251	191	176	125
Union Carbide and Carbon Corporation[3]	(307)	(291)	*	*
United Fruit Company	226	186	*	*
United States Rubber Company	308	172	193	160
United States Steel Corporation	2,286	1,864	980	744
Warner Bros. Pictures, Inc.	167	173	31	35
Westinghouse Electric & Manufacturing Company	254	204	216	154
Wheeling Steel Corporation	128	119	85	81
F. W. Woolworth Co.	165	201	303	290
Youngstown Sheet and Tube Company (The)	236	214	161	128
Median figures[4]	178	173	157	125

* Data not available.

† This figure covers a ten-month period.

[1] Twenty-three of these companies were also included among the 100 industrial companies examined in Chaps. II and III. In the case of three of these companies, the asset figures given vary somewhat from those in Exhibit 11, pp. 30–31. This is due either to differences in sources used or in the interpretation of the published statements.

[2] The figures available were usually quoted as net sales; in three cases, however, they were designated as gross sales, and in eleven cases, as gross operating income.

[3] Sufficiently complete earnings and compensation data could not be secured for this company to warrant including figures for it in many subsequent tables. Since some interesting information was available for the firm, however, it has been listed in this first exhibit.

[4] In preparing the medians, material enclosed in parentheses has been discarded. The median assets figures are based on data for the 51 firms for which detailed information on executive compensation and earnings also could be secured. The median sales figures are based on information for the 35 firms for which sales figures were available for both 1929 and 1936.

tant to note that percentages generally rose during periods of low or declining sales. Several factors contributed to this fluctuation: the effect of the decline in sales on the percentages; the possibility of change in aggregate dollar compensation, arising from changes in the number of officers employed; and the actual reduction in total dollar

EXHIBIT 72.—TOTAL NUMBER OF EXECUTIVES AND TYPICAL NUMBER PER COMPANY IN LARGE INDUSTRIAL COMPANIES: 1928–1936

Year	No. of companies[1]	Total No. of executives	Median No. of executives per company[2]
1928	49	656	12
1929	51	696	13
1930	51	697	12
1931	51	703	12
1932	51	696	13
1933	49	626	12
1934[3]	50	654	12
1935[3]	48	623	13
1936[3]	48	649	13

[1] Variation in the number of companies from year to year is caused by lack of data for some of the companies in certain years.

[2] Medians were secured from an exhibit similar to Exhibit 26, p. 55, the inclusion of which was not considered necessary in this chapter.

[3] Where the number of executives in these three years was not clearly stated, estimates have been used.

EXHIBIT 73.—TYPICAL DOLLAR SALES AND FLUCTUATION IN SALES FOR 35 LARGE INDUSTRIAL COMPANIES:[1] 1928–1936
(Median figures)

Year	Amount (unit = $1,000,000)	Index numbers (1929 = 100)
1928	$144†	88‡
1929	157	100
1930	132	83
1931	98	64
1932	77	55
1933	73	52
1934	96	63
1935	108	71
1936	125	92

† Estimates for two companies were used in arriving at the median dollar figure for 1928. A third company was not incorporated until 1929; hence the median is based on figures for 34 companies only.

‡ This median is based on the data for 33 companies, since an estimate for only one company could be included.

[1] During the nine-year period covered by this exhibit, several mergers or consolidations occurred; hence, the sales data secured from annual reports or other published statements showed marked differences between years as a result of this expansion. Complete sales data were available in all years for only 35 companies in the sample, with the exceptions noted above.

compensation because of reduction in payment of bonuses, or because of salary reductions during the depression.

EXHIBIT 74.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF SALES FOR 35 LARGE INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO SIZE:[1] 1928–1936
(Median figures)

Year	17 companies with assets less than $178,000,000 in 1929			18 companies with assets of $178,000,000 or more in 1929			All companies		
	No. of companies[2]	Executive compensation, %		No. of companies[2]	Executive compensation, %		No. of companies[2]	Executive compensation, %	
		Median	Range		Median	Range		Median	Range
1928	16	0.4	0.1–1.0	17	0.3†	0.1–1.1	33	0.4†	0.1–1.1
1929	17	0.4	0.1–3.2	18	0.3	0.1–1.2	35	0.3	0.1–3.2
1930	17	0.4	0.2–2.0	18	0.3	0.2–1.0	35	0.3	0.2–2.0
1931	17	0.4	0.2–3.9	18	0.4	0.2–1.2	35	0.4	0.2–3.9
1932	17	0.4	0.3–3.8	18	0.4	0.1–2.1	35	0.4	0.1–3.8
1933	..	*	*	..	*	*	..	*	*
1934	16	0.4	0.2–2.5	17	0.4	0.1–1.1	33	0.4	0.1–2.5
1935	16	0.4‡	0.2–2.3	17	0.3	0.1–0.6	33	0.4‡	0.1–2.3
1936	16	0.4†	0.2–2.2	17	0.3	0.1–0.5	33	0.3†	0.1–2.2

* Data not available.
† An estimate for one company was used in arriving at this median.
‡ Estimates for three companies were used in arriving at this median.
[1] The two size groups were established by securing the 1929 median asset figure for all companies in the sample and dividing the companies into those with assets below the median and those with assets above it. Complete sales data were available in all years except 1928 for only 35 companies.
[2] Figures for two firms were not available for 1928. Executive compensation data for two other firms for the years 1934–1936 were not usable.

Fluctuation in Executive Compensation

Executive compensation was such a small fraction of sales that the percentage figures could not disclose effectively changes in actual amounts. Therefore, the annual aggregate compensation of the three highest paid officers was examined, where such data were available, from 1928 to 1936, without relating these payments to sales. These amounts, converted into relatives of 1929, and annual medians for the group, are shown in Exhibit 75. Also medians for aggregate compensation of all executives, as

EXHIBIT 75.—FLUCTUATION IN AGGREGATE COMPENSATION OF THE THREE HIGHEST PAID EXECUTIVES IN EACH OF 56 LARGE INDUSTRIAL COMPANIES:[1] 1928–1936

Company	Compensation of the three highest paid executives (relatives; 1929 = 100)								
	1928 (1)	1929 (2)	1930 (3)	1931 (4)	1932 (5)	1933 (6)	1934 (7)	1935 (8)	1936 (9)
American Locomotive Company	85	100	114	89	75	*	53	51	50
American Radiator & Standard Sanitary Corporation	*	100	95	78	64	*	59	*	94
American Rolling Mill Company (The)	93	100	124	92	79	*	92	108	158
American Smelting and Refining Company	81	100	105	89	79	*	85	85	89
American Sugar Refining Company (The)	106	100	90	90	78	*	80	80	82
American Tobacco Company (The)	71	100	170	172	139	*	23	33	39
American Woolen Company	110	100	97	63	64	*	56	*	*
Anaconda Copper Mining Company	136	100	100	93	73	*	39	39	43
Atlantic Refining Company (The)	77	100	101	101	86	*	101	101	99
Bethlehem Steel Corporation	52	100	63	26	22	*	*	20	19
Borden Company (The)	86	100	111	114	66	*	55	57	56
Consolidated Oil Corporation	100	100	121	109	119	*	139	141	176
Continental Oil Company	86	100	73	71	68	*	69	62	63
Corn Products Refining Company	89	100	111	100	69	*	63	46	44
Crucible Steel Company of America[2]	(85)	(100)	(91)	(67)	(62)	*	*	*	*
E. I. du Pont de Nemours & Company	103	100	66	65	46	*	*	85	*
Eastman Kodak Company	100	100	103	104	99	*	77	88	88
Firestone Tire & Rubber Company (The)	98	100	90	71	65	*	83	*	87
B. F. Goodrich Company (The)[2]	(95)	(100)	(100)	(88)	(71)	*	(77)	*	(82)
Goodyear Tire & Rubber Company (The)	101	100	104	96	87	*	92	94	94
Inland Steel Company	93	100	93	72	62	*	77	92	99
International Harvester Company	88	100	73	20	18	*	15	15	21†
International Shoe Company	106	100	100	77	70	*	79	*	85
Jones & Laughlin Steel Corporation	70	100	57	49	45	*	42	17	23
Kennecott Copper Corporation	100	100	137	133	123	*	157	156	167
S. S. Kresge Company	101	100	93	53	31	*	50	51	55
Liggett & Myers Tobacco Company	87	100	109	53	58	*	*	*	*
Loew's Incorporated[2]	(79)	(100)	(120)	(101)	(68)	*	*	*	*
R. H. Macy & Co., Inc	100	100	100	99	92	*	67	61	67
Marshall Field & Company	100	100	129	162	130	*	130	144	171
Montgomery Ward & Co., Incorporated	105	100	73	43	28	*	26	26	35
National Dairy Products Corporation	69	100	110	165	159	*	107	100	138
National Lead Company	63	100	61	45	31	*	42	45	64
Ohio Oil Company	91	100	114	122	122	*	94	93	98

Phelps Dodge Corporation	87	100	121	90	79	*	68	76	83
Phillips Petroleum Company	100	100	105	94	88	*	104	121	*
Pittsburgh Coal Company	95	100	78	75	66	*	119	86	86
Procter & Gamble Company[2]	(79)	(100)	(52)	(14)	(16)	*	*	*	*
Pure Oil Company	65	100	82	59‡	57‡	*	50	53	59
Radio Corporation of America	56	100	81	46	42	*	29	35	35
R. J Reynolds Tobacco Company	100	100	100	100	100	*	184	184	184
Sears, Roebuck and Co.	205	100	96	70	37	*	41	38	42
Shell Union Oil Corporation	95	100	100	93	70	*	58	53	75
Standard Oil Company of California	100	100	100	124	124	*	113	111	114
Standard Oil Company (New Jersey)	61	100	100	73	52	*	57	58	59
Texas Corporation (The)	47	100	89	55	48	*	44	38	70
Tide Water Associated Oil Company	90	100	71	58	52	*	44	44	53
Union Carbide and Carbon Corporation[2]	(100)	(100)	(100)	(94)	(85)	*	*	*	*
United Fruit Company	100	100	95	94	76	*	58	58	59
United States Rubber Company	109	100	88	86	75	*	92	96	96
United States Steel Corporation	85	100	112	90	73	*	59	64	62
Warner Bros. Pictures, Inc.	*	100	102	183	96	*	*	63	*
Westinghouse Electric & Manufacturing Company	77	100	128	88	71	*	79	89	106
Wheeling Steel Corporation	79	100	98	77	68	*	158	*	158
F. W. Woolworth Co.	104	100	93	85	76	*	44	45	38
Youngstown Sheet and Tube Company (The)	203	100	236	188	71	*	56	69	70
Median aggregate compensation of three highest paid executives	93	100	100	89	71	*	63§	63‖	70¶
Median aggregate compensation of all executives[3]	91	100	100	85	70	*	72	75¶	78
Number of companies represented by median for three highest paid executives	49	51	51	51	51	..	49	48	47

* Data not available.

† The figures available for the International Harvester Company cover ten months only.

‡ Because of a change in fiscal year, the Pure Oil Company reported data for the three months, Jan. through Mar. 1932, with both the year ending Mar. 31, 1932, and the year ending Dec. 31, 1932.

§ In deriving the median, estimates were used for two firms for which the information available was incomplete.

‖ Estimates for three firms were used in securing the median figure.

¶ An estimate for one company was used in arriving at the median.

[1] Chrysler Corp., General Electric Co., and General Motors Corp. have not been shown because of lack of detailed compensation data. Figures for the eight steel companies also appear in Exhibit 70 (p. 154). In the case of Jones & Laughlin, the relatives given above will be found to differ from those presented in the earlier exhibit; the executive group in this case includes one man employed as general counsel and not considered as an executive in the previous chapter.

[2] Figures for this company have not been used in arriving at the medians in exhibits in this chapter since little or no comparable data for the last three years could be secured at the time the study was undertaken.

[3] For details see Exhibit 77, pp. 168–169.

indicated by Exhibit 77 (pages 168–169), are given here for purposes of comparison.

One other reason for examining compensation to the three highest paid officers only was the possibility that year-to-year changes in the number of officers employed or in the data submitted might influence to some degree total compensation figures. These variables were removed by studying the compensation of a fixed number of executives throughout the period.

Exhibit 77 indicates that the median figure for aggregate executive compensation for 57 companies reporting comparable data was the same in 1929 and 1930, and substantially above 1928 levels. This was also true for the median aggregate compensation of the three highest paid executives, as shown in Exhibit 75. Reductions in both began in 1931, typically amounting in that year to from 11% to 15% of the 1929 payments, and continued through 1932 when such payments were slightly more than two-thirds of the amounts paid in 1929. From 1934 to 1936, increases occurred in the aggregate compensation to all executives, while the compensation of the three highest paid officers was low in 1934 and 1935, but almost reached the 1932 levels by 1936.

The fluctuation in the compensation of all executives and in that of the three highest paid officers is for the most part similar. This seems to indicate that fluctuation in the number of officers employed had but little effect on aggregate compensation figures. Exhibit 75 reveals a wide range in the fluctuation of such payments by individual companies, however, indicating considerable variation in corporate policies.

Compensation Practices of Individual Companies

Of note in Exhibit 75, and clearly shown in Exhibit 76, is the increase in aggregate compensation of the three highest paid executives from 1928 to 1929 for nine of the companies, which was substantially larger than the increase

for the other companies examined. However, for all but three of these companies, the reduction in executive payments in 1930 was much larger than that of most of the other companies in the same year, and the subsequent annual reductions continued to be more drastic than the average reduction for the other companies. Some increases occurred in 1936, but the median total payments still remained around 40% below 1929. For only three of the companies, National Dairy Products Corporation, National Lead Company, and The Texas Corporation, did executive compensation in 1936 exceed the 1928 payments; and only the first company paid more in 1936 than in 1929.

EXHIBIT 76.—FLUCTUATION IN THE COMPENSATION OF THE THREE HIGHEST PAID EXECUTIVES IN EACH OF NINE LARGE INDUSTRIAL COMPANIES SUBSTANTIALLY INCREASING SUCH COMPENSATION FROM 1928 TO 1929: 1928–1936
(Relatives; 1929 = 100)

Company	1928	1929	1930	1931	1932	1933	1934	1935	1936
American Tobacco Company (The)	71	100	170	172	139	*	23	33	39
Bethlehem Steel Corporation	52	100	63	26	22	*	†	20	19
Jones & Laughlin Steel Corporation	70	100	57	49	45	*	42	17	23
National Dairy Products Corporation	69	100	110	165	159	*	107	100	138
National Lead Company	63	100	61	45	31	*	42	45	64
Pure Oil Company	65	100	82	59‡	57‡	*	50	53	59
Radio Corporation of America	56	100	81	46	42	*	29	35	35
Standard Oil Company (New Jersey)	61	100	100	73	52	*	57	58	59
Texas Corporation (The)	47	100	89	55	48	*	44	38	70
Median figures	63	100	82	55	48	*	42	38	59

* Data not available.

† Estimated to be about 22.

‡ Because of a change in fiscal year, the Pure Oil Company reported data for the three months, Jan. through Mar. 1932, with both the year ending Mar. 31, 1932, and the year ending Dec. 31, 1932.

Exhibits 77 and 80 (pages 168–169 and 174–175) present a great variety of detailed information pertaining to executive compensation in individual companies. This information is of real importance in studying company policies, as well as in

EXHIBIT 77.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS[1] AND SALES; EARNINGS AS A PERCENTAGE OF SALES; NUMBER OF EXECUTIVES: 1929; FLUCTUATION IN EXECUTIVE COMPENSATION: 1928–1936; IN EACH OF 57 LARGE INDUSTRIAL COMPANIES[2]

(Companies ranked according to percentage of earnings paid to executives in 1929)

Company[3]	Executive compensation in 1929		Earnings in 1929	Number of executives in 1929	Fluctuation in executive compensation[4] (relatives; 1929 = 100)								
	% of earnings	% of sales	% of sales		1928	1929	1930	1931	1932	1933	1934	1935	1936
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
United States Steel Corporation	0.5	0.1	21.8	13	82	100	103	85	79	*	67	76	76
Kennecott Copper Corporation	0.5	0.2	45.7	8	84	100	121	116	110	*	123	127	152
R. J. Reynolds Tobacco Company	0.6	*	*	12	99	100	102	102	102	*	167	157	158
Shell Union Oil Corporation	1.2	*	*	5	103	100	96	103	68	*	76	58	92
Anaconda Copper Mining Company	1.2	0.3	26.0	10	126	100	100	93	73	*	46	46	51
Marshall Field & Company	1.3	0.1	5.7	8	100	100	177	235	167	*	188	211	249
Standard Oil Company of California	1.3	*	*	11	90	100	116	109	109	*	100	107	107
Texas Corporation (The)	1.3	*	*	15	64	100	93	61	53	*	54	49	74
Standard Oil Company (New Jersey)	1.4	0.1	10.3	20	58	100	106	77	56	*	40	37	37
Ohio Oil Company	1.4	0.2	15.0	8	95	100	118	127	128	*	95	97	101
Union Carbide and Carbon Corporation[5]	(1.4)	*	*	(10)	(97)	100	(88)	(77)	(69)	*	*	*	*
Goodyear Tire & Rubber Company (The)	1.5	0.1	9.4	16	103	100	101	95	85	*	87	88	88
Phillips Petroleum Company	1.5	0.5	30.3	8	99	100	105	94	104	*	82	101	*
Wheeling Steel Corporation	1.6	0.2	11.5	13	87	100	100	94	74	*	165	*	177
Youngstown Sheet and Tube Company (The)	1.6	0.3	15.9	18	156	100	191	149	79	*	67	77	80
American Radiator & Standard Sanitary Corp.	1.7	0.3	15.0	7	*	100	87	70	67	*	58	87	87
Atlantic Refining Company (The)	1.9	0.2	12.0	8	85	100	94	112	92	*	118	124	121
International Shoe Company	1.9	0.2	13.1	24	101	100	102	84	85	*	89	*	92
Eastman Kodak Company	2.1	*	*	11	107	100	113	116	120	*	94	123	134
E. I. du Pont de Nemours & Company	2.1	*	*	27	95	100	69	65	40	*	*	89	*
Consolidated Oil Corporation	2.2	0.3	11.8	13	120	100	110	97	121	*	143	146	173
Sears, Roebuck and Co.	2.5	0.2	7.6	10	281	100	104	77	47	*	*	*	*
Tide Water Associated Oil Company	2.6	0.3	9.8	6	91	100	66	53	49	*	43	45	100
United Fruit Company	2.7	*	*	16	99	100	107	103	70	*	55	63	69
American Smelting and Refining Company	2.7	*	*	18	92	100	105	87	72	*	83	82	88
Westinghouse Electric & Manufacturing Co.	2.8	0.4	13.0	21	78	100	133	80	63	*	*	*	*
National Dairy Products Corporation	3.0	0.2	8.2	27	80	100	113	134	125	*	99	107	146
B. F. Goodrich Company (The)[5]	(3.0)	(0.2)	(6.7)	(15)	(107)	100	(107)	(114)	(102)	*	*	*	*
General Electric Company[5]	(3.0)	(0.5)	(16.8)	*	(89)	100	(83)	(49)	(27)	*	*	*	*
Inland Steel Company	3.2	0.6	19.6	14	81	100	92	78	65	*	85	112	149
Phelps Dodge Corporation	3.6	0.9	25.7	10	89	100	123	95	92	*	88	83	88
Radio Corporation of America	3.8	0.4	9.7	10	58	100	81	53	45	*	29	37	38
Procter & Gamble Company[5]	(3.9)	(0.5)	(12.4)	(5)	(81)	100	(75)	(27)	(25)	*	*	*	*

Firestone Tire & Rubber Company (The)	4.0	0.3	6.5	11	98	100	92	74	71	*	95	*	98
American Sugar Refining Company (The)	4.2	(0.3)	(6.3)	14	91	100	88	88	75	*	76	77	76
Borden Company (The)	4.3†	0.3	6.5†	15	73	100	117	125	71	*	58	57	58
Continental Oil Company	4.4	0.6	14.0	14	92	100	69	61	60	*	62	48	54
R. H. Macy & Co., Inc.	4.7	0.3	7.5	4	98	100	100	104	97	*	88	78	91
American Rolling Mill Company (The)	5.0	0.6	11.5	15	88	100	117	85	72	*	76	107	130
Loew's Incorporated[5]	(5.2)†	(0.8)	(14.9)†	(7)	(82)	100	(119)	(105)	(83)	*	*	*	*
International Harvester Company	5.3	*	*	13	85	100	71	22	18	*	18	20	25‡
Liggett & Myers Tobacco Company	5.3	*	*	12	88	100	97	60	62	*	*	40	53
Warner Bros. Pictures, Inc.	5.5	3.2	59.0	20	*	100	106	140	87	*	67	73	76
Crucible Steel Company of America[5]	(5.8)	*	*	(9)	(85)	100	(93)	(69)	(62)	*	*	*	*
Corn Products Refining Company	6.0	*	*	9	87	100	112	107	62	*	56	46	55
American Tobacco Company (The)	6.1	*	*	21	78	100	175	183	116	*	38	52	57
Montgomery Ward & Co., Incorporated	6.2	0.3	5.4	8	100	100	77	50	40	*	33	40	50
S. S. Kresge Company	6.2	0.6	10.4	9	102	100	92	62	32	*	59	58	63
Pure Oil Company	6.2	0.7	10.9	12	65	100	86	59§	58§	*	48	51	56
Jones & Laughlin Steel Corporation	6.3	1.1	18.0	11	82	100	59	47	41	*	36	27	30
American Locomotive Company	6.6	*	*	16	78	100	93	80	67	*	54	53	61
Bethlehem Steel Corporation	6.9	1.2	16.8	17	58	100	65	31	27	*	26	26	25
F. W. Woolworth Co.[6]	7.4	0.9	12.7	30	98	100	87	75	60	*	*	*	*
National Lead Company	7.7	*	*	22	72	100	71	59	46	*	43	44	52
Pittsburgh Coal Company	9.0	0.4	5.0	7	84	100	74	71	69	*	123	98	98
United States Rubber Company	16.6	0.3	1.6	19	116	100	80	76	69	*	79	66	69
American Woolen Company[7]	.....	*	*	10	112	100	88	89	66	*	54	53	51
Median figures	2.9	0.3‖	11.8‖	13	91	100	100	85	70	*	72	75¶	78

* Data not available.
† Since an interest figure was not available, interest was estimated at 6 % of the debt outstanding, to secure a comparable earnings figure.
‡ This relative represents compensation figures for 10 months only. An estimate for 12 months was used in deriving the median for 1936.
§ Because of a change in fiscal year, data for January–March, 1932, are included in the figures for both 1931 and 1932.
‖ Based on figures for the same 35 firms used in Exhibits 71 and 74 (pp. 161 and 163). Figures in parentheses were not included in securing the median.
¶ An estimate was used in arriving at the median for 1935.
1 Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.
2 Figures for Chrysler Corp. and General Motors Corp. have not been used because of lack of compensation data.
3 Twenty-three companies were included among the 100 industrial companies reviewed in Chaps. II and III. For seven of these, the earnings figures used in preparing this exhibit d ffered somewhat from those used in Chap. III. These differences, negligible in all but one instance, were due either to sources or to interpretation of published statements. For the United States Rubber Company, however, the difference was substantial; certain extraordinary charges, not considered in arriving at the figure presented in Exhibit 11 (p. 31), were treated as expense in arriving at the earnings figure used here. Eight companies were included in the 24 steel companies analyzed in Chap. VII. In arriving at total executive compensation in the earlier study, deductions were made for compensation of general counsel when included with that of the more definitely recognized executives. No such adjustments were made in securing the figures here. In the three instances where the figures for executive compensation and earnings as a percentage of sales vary from those in Exhibit 64 (p. 143), the difference is only 0.1 %.
4 Figures for 1928–1932 were based on data furnished to the Federal Trade Commission, while those for 1934–1936 were based on figures reported to the Securities and Exchange Commission. In some instances, it appeared desirable to adjust the figures for 1934–1936 to make them more nearly comparable with those for the earlier years; in a few other cases it was necessary to apply the reverse procedure. Several of the compensation figures, therefore, are estimates. Pensions and the cash value of stock bonuses were deducted wherever they were known to be included. In the light of new available material, it seemed desirable to change or omit certain figures published in previous studies.
5 Figures for this company have not been used in arriving at the medians. The data thus excluded have been enclosed in parentheses.
6 The earnings figure includes dividends from foreign subsidiaries.
7 Because of a deficit, no percentage figures based on earnings could be computed.

showing the wide variations in the figures from which the medians were derived. Furthermore, if the reader wishes to group the companies differently from the manner in which they appear here, this can be done readily with the basic figures available for each company.

Executive Compensation, Earnings, and Sales: 1929

With executive compensation and earnings available, it is possible to arrive at percentage ratios of compensation to earnings, which appear in Exhibit 77, column 1. The companies are ranked according to the percentage of compensation to earnings in 1929; the median for the group in 1929 is 2.9% as compared with 6.6% for the sample of 100 industrial companies analyzed in Chapters II and III. The range in the percentages is extreme, from 0.5% for the United States Steel Corporation to 16.6% for the United States Rubber Company, with one company in the group showing no earnings in 1929.

As in the case of the retail companies in Chapter IV, important changes would occur in the ranking of companies if sales volume were used as a base rather than earnings. In using the latter item, there was no thought of criticizing companies paying a high or a low percentage of earnings to executives, since the differences in percentages result from other factors than simply differences in dollar payments. As previously stated, some of these factors are: variation in earnings among companies; variation in number of executives; and stock ownership by executives, who may take their remuneration largely in dividends. In some companies the share of earnings going to executives may have been too low to secure the most capable men for such positions or to retain them if they were secured. The companies were ranked according to the percentage of earnings merely as a matter of information.

Executive compensation as a percentage of sales is, however, an important ratio because it shows the portion of the buying dollar going to the executive group. Exhibit 77,

column 2, indicates that only 0.3% (median) is used in this way, not in any sense an alarming amount. The range in percentages is also wide, from 0.1% for the United States Steel Corporation to 3.2% for Warner Bros. Pictures, Inc.

Too much emphasis should not be placed on the percentage relationships of executive compensation to sales and to earnings for any one year or any one company, as these vary considerably from year to year, and do not necessarily indicate successful results. Column 3, showing

EXHIBIT 78.—FLUCTUATION IN EXECUTIVE COMPENSATION FOR EACH OF FIVE LARGE INDUSTRIAL COMPANIES SUBSTANTIALLY INCREASING SUCH PAYMENTS FROM 1928 TO 1929: 1928–1936

(Relatives; 1929 = 100)

Company	1928	1929	1930	1931	1932	1933	1934	1935	1936
Texas Corporation (The)	64	100	93	61	53	*	54	49	74
Standard Oil Company (New Jersey)	58	100	106	77	56	*	40	37	37
Radio Corporation of America	58	100	81	53	45	*	29	37	38
Pure Oil Company	65	100	86	59†	58†	*	48	51	56
Bethlehem Steel Corporation	58	100	65	31	27	*	26	26	25
Median figures	58	100	86	59	53	*	40	37	38

* Data not available.

† Because of a change in fiscal year, the Pure Oil Company reported data for the three months January through March, 1932, with both the year ending Mar. 31, 1932, and the year ending Dec. 31, 1932.

earnings as a percentage of sales in 1929, was included to indicate the profitableness of operation, and here also extremely wide fluctuation appears.

The fluctuation in aggregate compensation expressed in relatives, as shown in Exhibit 77, columns 5–13, is significant in following the compensation practices of the individual companies without relating such payments to other variables.

Although the median figures given at the bottom of this exhibit and presented in Exhibit 75 disclose general tendencies, figures for individual companies show the efforts made by them to control total compensation payments. Although the average index declined 28% to 72 in 1934,

EXHIBIT 80.—EXECUTIVE COMPENSATION, INTEREST, BALANCE AVAILABLE FOR DIVIDENDS, AND TOTAL DIVIDENDS AS A PERCENTAGE OF EARNINGS; AVERAGE ANNUAL SALES; EARNINGS AND EXECUTIVE COMPENSATION AS A PERCENTAGE OF SALES: 1928–1936 COMBINED;[1] PERCENTAGE OF VOTES CONTROLLED BY MANAGEMENT NEAR THE END OF 1934; FOR EACH OF 57 LARGE INDUSTRIAL COMPANIES[2]

(Companies ranked according to percentage of earnings paid to executives)

Company	Executive compensation,[3] % of earnings[4] (1)	Interest, % of earnings[4] (2)	Balance available for dividends, % of earnings[4] (3)	Total dividends, % of earnings[4] (4)	Average annual sales[5] (unit = $1,000,000) (5)	Earnings,[4] % of sales (6)	Executive compensation,[3] % of sales (7)	% of votes controlled by management near end of 1934[6] (8)
R. J. Reynolds Tobacco Company	0.8	....	99.2	95.2	*	*	*	43.1
Standard Oil Company (New Jersey)	1.5	33.3	65.2	49.6	$1,204	7.8	0.1	0.4
Kennecott Copper Corporation	1.6	1.3	97.1	91.6	73	27.2	0.4	7.3
United States Steel Corporation	1.6	15.4	83.0	85.0	632	9.2	0.1	0.5
Union Carbide and Carbon Corporation[7]	(1.8)†	(4.7)†	(93.5)†	(74.5)†	*	*	*	(3.9)
Texas Corporation (The)	2.0	20.0	78.0	73.0	*	*	*	1.9
Standard Oil Company of California	2.2	0.1	97.7	90.1	*	*	*	0.3
E. I. du Pont de Nemours & Company	2.3‡	0.1‡	97.6‡	88.9‡	*	*	*	6.0
International Shoe Company	2.6§	0.0§	97.4§	80.2§	96§	12.1§	0.3§	18.5
Goodyear Tire & Rubber Company (The)	2.7	35.0	62.3	54.9	183	6.9	0.2	1.6
Shell Union Oil Corporation	2.9	53.2	43.9	87.3	*	*	*	0.4
General Electric Company[7]	(3.0)†	(0.7)†	(96.3)†	(75.7)†	(308)†	(15.8)†	(0.5)†	(0.8)
Phillips Petroleum Company	3.0§	28.8§	68.2§	45.7§	63§	12.2§	0.4§	8.3
United Fruit Company	3.1	1.9	95.0	79.0	*	*	*	4.8
Tide Water Associated Oil Company	3.1	22.2	74.7	55.9	123	8.1	0.3	4.4
Procter & Gamble Company[7]	(3.2)†	(2.7)†	(94.1)†	(76.7)†	(157)†	(11.4)†	(0.4)†	(4.0)
Eastman Kodak Company	3.2	....	96.8	87.9	*	*	*	1.9
Ohio Oil Company	3.3	0.1	96.6	118.7	56	10.3	0.3	0.7
Anaconda Copper Mining Company	3.4	27.3	69.3	6.3	157	13.8	0.5	0.6
Liggett & Myers Tobacco Company	3.9§	6.5§	89.6§	70.8§	*	*	*	3.9
National Dairy Products Corporation	4.1	17.7	78.2	50.9	293	7.0	0.3	3.1
Radio Corporation of America	4.4	10.9	84.7	38.4	105	7.8	0.3	0.9
American Smelting and Refining Company	4.4	13.5	82.1	67.2	*	*	*	0 6
Atlantic Refining Company (The)	4.5	9.3	86.2	43.0	116	7.3	0.3	2.2
Firestone Tire & Rubber Company (The)	4.6§	16.7§	78.7§	67.4§	118§	6.2§	0.3§	2 3
Wheeling Steel Corporation	4.6§	40.8§	54.6§	51.7§	62§	6.4§	0.3§	16.6
Pure Oil Company[8]	4.7	32.6	62.7	37.9	76	9.4	0.4	1.6
Inland Steel Company	4.8	19.6	75.6	45.8	54	15.7	0.8	16.8
American Radiator & Standard Sanitary Corp.	4.9§	19.1§	76.0§	101.3§	90§	6.7§	0.3§	3.8
International Harvester Company[9]	5.1	1.2	93.7	72.7	*	*	*	7.8
American Sugar Refining Company (The)	5.1	14.7	80.2	70.5	*	*	*	0.5
Sears, Roebuck and Co.	5.5†	....	94.5†	59.9†	332†	5.2†	0.3†	4.0
Loew's Incorporated[7,10]	(5.6)†	(25.0)†	(69.4)†	(35.0)†	(114)†	(13.8)†	(0.8)†	(1.2)
S. S. Kresge Company	5.7	7.2	87.1	56.6	144	8.7	0.5	26.6
American Tobacco Company (The)	5.8	0.7	93.5	79.5	*	*	*	0.4

Youngstown Sheet and Tube Company (The)	5.8	49.9	44.3	36.3	98	8.2	0.5	*
Consolidated Oil Corporation	5.9	38.9	55.2	63.5	176	6.4	0.4	0.3
Borden Company (The)[10]	6.0	0.8	93.2	71.7	255	5.0	0.3	1.8
Corn Products Refining Company	6.6	0.5	92.9	87.1	*	*	*	7.9
F. W. Woolworth Co.[11]	6.6†	....	93.4†	73.3†	282†	12.8†	0.8†	27.0
Montgomery Ward & Co., Incorporated	6.8	....	93.2	87.4	251	3.2	0.2	3.6
R. H. Macy & Co., Inc	6.9	13.6	79.5	52.1	122	5.3	0.4	34.0
Phelps Dodge Corporation	7.0	4.8	88.2	74.4	50	9.9	0.7	18.0
Westinghouse Electric & Manufacturing Co.[12]	7.1	1.8	91.1	80.8	138	7.0	0.5	0.3
Marshall Field & Company	7.9	37.8	54.3	102.4	126	2.5	0.2	39.1
National Lead Company	8.4	....	91.6	66.4	*	*	*	6.0
Bethlehem Steel Corporation	8.7	39.6	51.7	53.9	229	8.9	0.8	5 0
American Rolling Mill Company (The)	8.7	45.0	46.3	44.6	61	7.4	0.6	6.4
Continental Oil Company	10.7	29.5	59.8	47.5	68	4.8	0.5	1.1
Crucible Steel Company of America[7]	(12.8)†	(13.6)†	(73.6)†	(105.4)†	*	*	*	(11.4)
Warner Bros. Pictures, Inc	14.8§	83.2§	2.0§	26.9§	34§	18.7§	2.8§	8.7
Jones & Laughlin Steel Corporation	14.9	11.5	73.6	76.2	77	7.0	1.0	17.4
B. F. Goodrich Company (The)[7,13]	(29.5)†	(284.1)†	(*Loss 213.6*)†	(281.8)†	(132)†	(9.1)†	(0.3)†	(1.7)
Pittsburgh Coal Company	35.2	305.8	*Loss 241.0*	....	39	1.2	0.4	3.1
American Locomotive Company	41.9	....	58.1	444.3	*	*	*	2.5
United States Rubber Company	‖	‖	‖	....	141	0.0	0.3	0.2
American Woolen Company[14]	....	....	....	....	*	*	*	0.6
Median figures	4.9	13.6¶	79.9	69.0¶	118	7.4	0.4	3.4

* Data not available. † Average for 1928–1932. ‡ Six-year average. § Seven-year average.

‖ There was a small profit before executive compensation and interest, but a deficit after these deductions; the percentages were therefore fantastic.

¶ In arriving at these medians, it has been assumed that where interest payments were not segregated on the operating statements and where no long-term, interest-bearing liabilities were revealed by the balance sheets, the amounts paid were negligible or nonexistent.

1 Since complete information on executive compensation was not available, all data for 1933 have been excluded.

2 Figures for Chrysler Corp. and General Motors Corp. have not been used because of lack of compensation data.

3 In cases of consolidations, the reports of the parent company to the Federal Trade Commission usually included a note to the effect that the compensation of certain of the officers and directors of the company included that received from subsidiary and affiliated companies.

4 Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

5 Thirty-five companies used in previous exhibits involving sales data, and Loew's Inc., Procter & Gamble Co., General Electric Co., B. F. Goodrich Co.

6 Figures representing votes controlled by management include: stock owned of record and beneficially, held by another company in which the registrant's executives have voting control, and held as trustee. *Votes controlled* is represented, rather than stock owned. Voting rights of preferred stock upon default of dividends, etc., have been considered. The figures are at best only good estimates because of the vague data available. Data were requested by the Securities and Exchange Commission for 1934 only.

7 Figures have not been used in arriving at the medians. Data thus excluded have been enclosed in parentheses.

8 Because of a change in fiscal year, data for January–March, 1932, are included in the figures for both 1931 and 1932. Since this occurred on both the Federal Trade Commission reports and the company's annual reports, the error incurred in using the figures is probably small.

9 Figures available for 1936 cover a 10-month period.

10 Interest charges were not given, although they probably existed during certain years. Estimates at 6% on the debt outstanding at the end of the fiscal year were made for Loew's Inc. for 1928–1932, and for Borden Co. for 1928–1934, which are, of course, reflected in the earnings figures.

11 The earnings figure includes dividends from foreign subsidiaries.

12 The 1928 annual report covered 9 months only, because of a change in fiscal year. Executive compensation data submitted to the Federal Trade Commission, however, seemed to cover 12 months. Executive compensation as a percentage of earnings is therefore slightly overstated and the other percentages based on earnings somewhat understated. Sales for the 12-month period were estimated in determining average sales and executive compensation as a percentage of sales.

13 Because of a variation in treatment of minority interest, the earnings figure differed somewhat from that used in Chap. III; hence the percentage in column 1 differs slightly from that in Exhibit 11, column 5 (p. 30).

14 Since a deficit was sustained for the combined period, no percentage figures based on earnings could be computed.

Columns 3 and 4, balance available for dividends and total dividends, are illuminating and merit careful study. Twelve of the companies in the group, or about 20%, paid out more in dividends than they had available for such payments. Three of the companies paid no dividends during the period; 22 of the companies disbursed over 75% of earnings in dividends; and only 12 companies distributed less than 50% of earnings. The medians for the two columns also fail to indicate any large "plowing back" of earnings over the period.

Columns 5, 6, and 7 contain data on average annual sales, and the relation of earnings and executive compensation to sales. Median average sales were $118,000,000 for the period; median earnings were 7.4% of sales, and median executive compensation 0.4%. The range in the percentages among the various companies should be examined.

The percentage of corporate votes controlled by the managements of the companies appears in column 8. Here again because of inadequate data these figures are open to criticism. They are, however, rough approximations and as such of significance. The median percentage, 3.4, fails to suggest the important extremes. This column, however, does support previous studies indicating the small stock ownership by management which is common today among the large corporations.

Executive Compensation, Earnings, Dividends, and Their Relationships Summarized

Previous sections of this analysis have been concerned chiefly with executive compensation in relation to sales and earnings, and the fluctuation in actual total amounts paid in executive compensation from 1928 to 1936. Questions of significance in this area which still remain to be answered are the following: How did payments to executives compare with dividend disbursements by years as well as for the entire period? What share of earnings went to executives in 1929, 1936, and for the entire period as compared with

the share going to stockholders? What was the relationship between total dividends and the balance available for dividends, *i.e.*, net earnings after all charges including executive compensation and bond interest? Exhibits 81, 82, and 83 should answer these questions.

An introduction to this aspect of the compensation problem appears in the percentage of executive compensation to earnings in 1929, as presented in Exhibit 77 (pages 168–169). The median percentage indicates that large industrial companies typically paid 2.9% of earnings to executives in 1929. The use of annual earnings as a base for computing percentages is open to as much criticism as the use of the sales figure, if year-to-year comparisons are to be made for an average company for the years 1928–1936. Indeed, company earnings fluctuated more widely than did sales during this period. Annual percentages based on such variable figures would differ markedly among the companies.

The purpose of this section of the study is to indicate by median averages for the group the distribution of earnings as executive compensation, interest, balance available for dividends, and dividends paid. In Exhibit 81, interest payments as a percentage of earnings for 1929, 1936, and for the period 1928–1936 are indicated. The spread in the percentages was so wide as to reduce their significance. Columns 11 and 12 show median figures for 1936 and for the 1928–1936 period for executive compensation as a percentage of earnings. Executive compensation was 3.5% of earnings in 1936, and 4.9% for the period. The increase from 1929, when executive compensation was 2.9% of earnings, may be attributed not to higher executive compensation but to the other variable, lower earnings. On the other hand, the median for balance available for dividends, 90.5%, was slightly higher in 1929 than the 89.6% typical in 1936, and much higher than the 79.9% for the period. This too is explained by decline in earnings.

Total dividends for the group were 47.5% of earnings in 1929, compared with 59.2% in 1936 and 69.0% for the

period. It should be remembered that the term "earnings" as defined in this study is before executive compensation

EXHIBIT 81.—EXECUTIVE COMPENSATION, INTEREST, BALANCE AVAILABLE FOR DIVIDENDS, EARNINGS,[1] AND TOTAL DIVIDENDS FOR 51 LARGE INDUSTRIAL COMPANIES;[2] PERCENTAGES OF EARNINGS: 1929, 1936, AND 1928–1936 COMBINED;[3] INDEX NUMBERS: 1928–1936
(Median figures)

Items	% of earnings	Index numbers: 1929 = 100									% of earnings	
	1929	1928	1929	1930	1931	1932	1933	1934	1935	1936	1936	1928–1936 combined
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Executive compensation	2.9	91†	100	100	85	70	*	72‡	75‡	78‡	3.5	4.9
Interest[4]	6.9	...	...	...	..	..	..	...	...	...	7.8	13.6
Balance available for dividends[5]	90.5	83	100	51	5	*d*5	17	34	51	71	89.6	79.9
Earnings	100.0	87	100	58	14	12	*	41	51	69	100.0	100.0
Total dividends	47.5	77	100	106	77	32	12	42	54	81	59.2	69.0

* Data not available. *d* = deficit.

† Two companies did not have executive compensation data available in 1928.

‡ Five companies had compensation data either not available or not usable in each of these years. Several estimates have been used in arriving at the medians.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest. Figures for one company which sustained a loss in 1929 were omitted throughout in determining the index numbers for earnings. In addition, in 1928, 1934, 1935, and 1936, figures for several companies for which executive compensation data were lacking were omitted in preparing the index of change in earnings.

[2] Because of lack of data, 8 companies in the sample are omitted completely. In preparing the median percentages, figures were omitted for one company which sustained a deficit in the years 1928–1932 and 1934. Figures for a group of 47 firms were used in selecting the medians in column 11, since no usable compensation data were available for the three additional companies omitted.

[3] Since complete compensation data were not available for 1933, all figures for that year were excluded in calculating these percentages. For certain firms lacking executive compensation figures in other years, these percentages were computed from aggregates based on a shorter period, as noted under Exhibit 77, pp. 168–169.

[4] Index numbers for this item are not shown, since it was possible to base the series on relatives for only those 39 firms which paid interest in 1929.

[5] The index numbers for this item do not reflect the fluctuations in the figures for two companies which had losses in 1929.

and interest. The true earnings figure, therefore, is the item entitled "balance available for dividends." Total dividends paid amounted to 55.1% of the balance available for

dividends (or true net earnings) in 1929, 68.2% in 1936, and 84.7% for the period, as indicated in Exhibit 82. This last percentage figure is significant in the light of recent tax legislation. Corporations over a period of good and bad years *on the average* were "plowing back" about 15%, not a fantastic amount. For individual companies, however, there were variations in percentages all the way from small payments to more than the balance available for dividends.

EXHIBIT 82.—TOTAL DIVIDENDS AS A PERCENTAGE OF EARNINGS[1] AND OF BALANCE AVAILABLE FOR DIVIDENDS FOR 50 LARGE INDUSTRIAL COMPANIES: 1929, 1936, AND 1928–1936 COMBINED[2]
(Median figures)

Year	% of earnings	% of balance available for dividends
1929	47.5	55.1
1936	59.2	68.2
1928–1936 combined	69.0	84.7

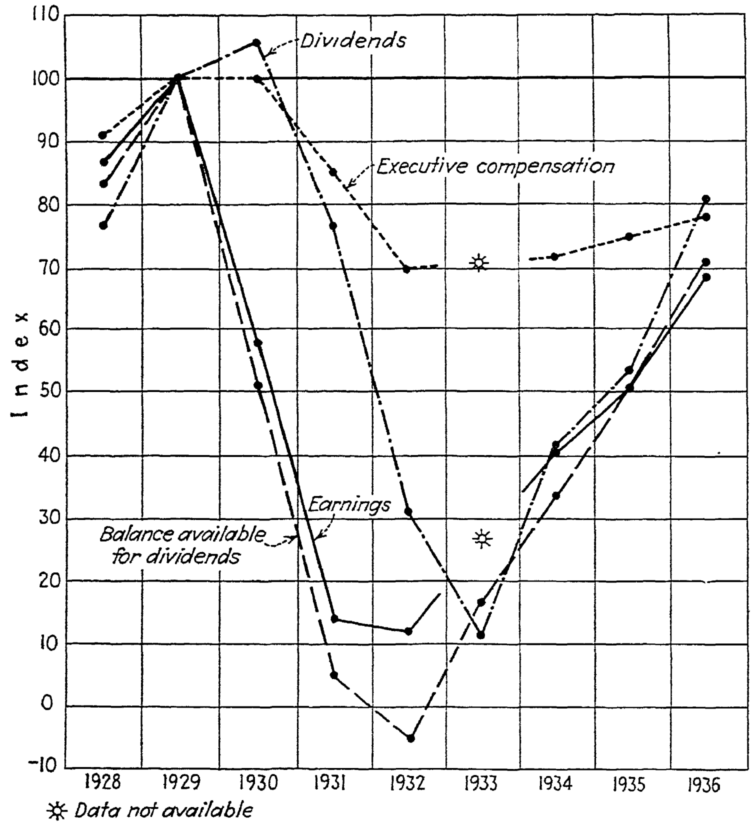
[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] Since there were not sufficient data available for 1933, this year has been omitted from the period. Also because of lack of data, eight companies in the original sample have been omitted, and because of a deficit in 1928–1932 and 1934, an additional company was omitted in this exhibit.

Since two variables such as executive compensation and earnings may fluctuate widely from year to year, percentage figures based on them do not necessarily furnish illuminating information on year-to-year changes. Consequently in Exhibit 81, columns 2 to 10, appear index numbers based on dollar figures for the items being studied, 1929 equaling 100. The index of executive compensation declined from 100 in 1929 and 1930 to 70 in 1932, and rose to 78 in 1936. The index of balance available for dividends fluctuated widely, dropping from 100 in 1929 to 51 in 1930, and to a deficit of 5 in 1932; by 1936, however, this item had risen to 71. Earnings also fluctuated widely, the index declining rapidly from 100 in 1929 to 12 in 1932, and recovering to 69 in 1936. The index of total dividends, on the other

hand, rose from 100 in 1929 to 106 in 1930, and then declined to 12 in 1933, recovering rapidly during the following years

EXHIBIT 83.—FLUCTUATION IN EXECUTIVE COMPENSATION, BALANCE AVAILABLE FOR DIVIDENDS, EARNINGS,[1] AND TOTAL DIVIDENDS FOR 51 LARGE INDUSTRIAL COMPANIES: 1928–1936



[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

to 81 in 1936. The fluctuation in these items is shown graphically in Exhibit 83.

Executive Compensation in Dollars

Thus far in this chapter the payment of executive officers has been examined as it related to sales and earnings; and

index numbers and relatives indicating year-to-year variations in total dollar payments also have been presented and discussed. There remains to be considered the actual amounts in dollars paid to executives.

EXHIBIT 84.—TYPICAL DOLLAR EXECUTIVE COMPENSATION OF 44 LARGE INDUSTRIAL COMPANIES: 1929 AND 1936[1]

Ranking of executives in individual companies	Amount (median)	% of median compensation of highest paid executive
1929		
Highest paid executive	$101,000	100
Second highest paid executive	76,000	75
Third highest paid executive	59,000	58
All other executives (averaged)	26,000	26
Total executives (averaged)	40,000	40
1936		
Highest paid executive	93,000	100
Second highest paid executive	64,000	69
Third highest paid executive[2]	50,000	54
All other executives (averaged)[2]	24,000†	26
Total executives (averaged)	35,000†	38

† These averages for 1936 are to be considered merely suggestive, since the total dollar amounts paid to executives in 1936 were, in a few cases, estimated for use in the study and, in many instances, the total number of executives employed was not clearly stated on the Securities and Exchange Commission Form 10K for 1936.

[1] Comparable data for the compensation of the three highest paid executives for both years were available for only 44 companies. The figures for the last two items are slightly overstated, since total compensation includes that of all officers and directors reported to the Federal Trade Commission and the Securities and Exchange Commission, whereas the number of executives as determined for this study excludes those directors who received only nominal sums. Directors' fees could have been excluded in 1929, but since separate amounts for such fees were not specifically required on the Securities and Exchange Commission form, directors' fees could not be excluded in 1936. For purposes of comparison, therefore, directors' fees have been included in both years.

[2] The third highest paid executive in one company was not an executive as defined for this study. For the purposes of this exhibit, it was possible to use an estimate in this instance.

Two years, 1929, a prosperous pre-depression year, and 1936, the most recent year for which figures were available, were selected for examination. Median dollar figures were secured for the highest, the second highest, and the third highest paid executive per company. Also medians were found for the average amount going to each executive other than the three highest paid, and for the average amount going to each executive including the three highest paid.

Exhibit 84 gives percentages indicating the relationship of each of the above medians to the median amount going to the highest paid executive.

The dollar figures in this exhibit are in themselves of particular interest; the highest paid executive in a company typically received \$101,000 in 1929, and the second and third highest paid received \$76,000 and \$59,000 respectively. Median payments to all executives averaged were \$40,000 and to all except the three highest, \$26,000. These median figures, when compared with similar figures for 1936, show clearly that 1936 compensation payments for neither the three highest nor all other executives had reached the 1929 level, although the spread was slight.

When interpreting the data in Exhibit 84, it must be remembered that no allowance was made for size of company, other than the fact that in 1929 all except one had assets exceeding \$100,000,000. Because in previous studies size as measured by assets had a definite bearing on dollar compensation, it was decided to examine this item separately for those companies with assets smaller than the 1929 median asset figure and those with larger assets, and compare annual medians for the aggregate dollar compensation of the three highest paid executives. Exhibit 85 indicates, as shown in previous chapters, that the larger the assets of a corporation, the larger was the aggregate dollar compensation of the three highest paid executives.

The median compensation of presidents of groups with small and with large assets also was compared, with similar results, the corporation with the larger assets on the average paying higher amounts to the president.

Effect of Executive Compensation on Earnings

The frequent question as to whether companies paying executives relatively large compensation secure more satisfactory earnings than companies paying their officers smaller amounts was considered for these companies, as it was for the retail companies, to see if there was any more

correlation between executive compensation and earnings in large industrial companies than in the more specialized group of companies. Again it must be remembered that a definite answer would be impossible to secure, but rough

EXHIBIT 85.—TYPICAL DOLLAR COMPENSATION FOR THE THREE HIGHEST PAID EXECUTIVES COMBINED, AND FOR PRESIDENTS OF 39 LARGE INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO SIZE:[1] 1928–1936
(Median figures; unit = $1,000)

Year	Three highest paid executives		Presidents	
	17 companies with assets less than $178,000,000 in 1929	22 companies with assets of $178,000,000 or more in 1929	17 companies with assets less than $178,000,000 in 1929	22 companies with assets of $178,000,000 or more in 1929
1928	$182	$251	$75	$114
1929	214	255	75	112
1930	220	292	77	114
1931	191	243	75	101
1932	161	192	60	87
1933	*	*	*	*
1934	150	210†	60	91
1935	164†	201	66	81
1936	185	236	75	91

* Data not available.
† In this case an estimate for one company with consistently high figures was used.
[1] The two size groups used in this exhibit were established by arraying the asset figures for all companies in the sample according to their magnitude. The median figure was $178,000,000. All companies having assets of less than this amount were placed in the first group, the remaining companies being considered in the second group. In order to obtain comparable figures for the entire period, material was used for only those 39 companies for which the necessary data were available for all the years studied.

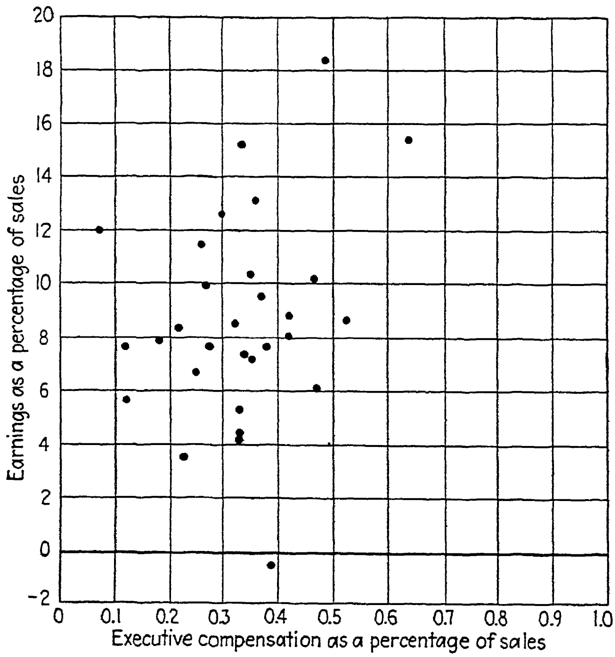
statistical tests can be made to discover if there is even a noticeable correlation between high executive compensation and high earnings in this group of companies. Exhibit 86, a scatter chart similar to those in Exhibit 46 (pages 102–103) for retail companies, indicates little or no such correlation.

Conclusion

As a rule moderate percentages of earnings and sales were paid to executives by the group of large industrial companies examined. The variations in such payments, how-

ever, were so wide as to raise some question concerning the policies being followed among certain companies. Whether executive payments were too high, or results too meager, are questions which might be asked of specific companies. Statistically no significant relationship or correlation

EXHIBIT 86.—CORRELATION OF EXECUTIVE COMPENSATION AND EARNINGS[1] AS A PERCENTAGE OF SALES FOR 30 LARGE INDUSTRIAL COMPANIES:[2] 1936.



[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] The figures plotted are for the same firms used in securing the median percentage of executive compensation to sales for 1936 in Exhibit 74 (p. 163), with the exception of an estimated figure, which has not been indicated here. Figures for two additional firms could not conveniently be shown here; these percentages are: executive compensation, 0.40% and 2.17% of sales; earnings, 24.4% and 25.0% of sales, respectively.

could be discovered between executive compensation and earnings.

In 1929, the group of companies on the average paid in dividends 16 times more than it paid to executives; in 1936, 17 times more; and for the 1928–1936 period, 14 times more.

Payments to executives fluctuated over the period; salary payments tended to be inflexible, as indicated in previous studies, and the large fluctuations occurred in bonus payments, many of these disappearing entirely. The spread in dollar payments to individual executives over the period was wide. Average figures do not reveal extreme payments, but they do indicate what is probably a fair market rate for able executives. It is the exceptions to these averages which attract attention to executive compensation payments. An interesting point which became noticeable in recent years is the tendency for the spread in total payments among companies to narrow.

CHAPTER IX

METHODS OF PAYING EXECUTIVES IN LARGE INDUSTRIAL COMPANIES: 1928–1936

In the conclusion to the study by Taussig and Barker of executive compensation payments and methods of over 400 companies from 1904 to 1914, which has been mentioned before, the authors cautiously conclude in question form that the then widely used fixed-salary method might not be the most effective one. To quote specifically:

> And yet, when all is said of the good sides of this "American plan," is it not worth while to consider whether even better results might not be attained if there were more direct connection between executive earnings and executive success? Is it not possible that the fixed salary is merely a tradition and a habit? . . . [1]

It is interesting to note that there was a definite trend in the direction suggested above in recent years, reaching a peak in 1930; this is clearly indicated by a further examination of the executive compensation policies and practices of the 59 large industrial companies studied in the previous chapter.

Among the various methods used by these companies were: salary, bonus, salary and cash bonus, salary and stock bonus, salary and cash bonus with stock rights or options, and many variations of these, some exceedingly intricate because of special features. There are basically, however, only two methods of paying executives: salary, and salary and some form of bonus, with variations. These two methods are therefore emphasized in the following analyses.

Twelve companies paid only salaries to their executives every year during the period studied. Thirty-four com-

[1] Taussig, F. W., and Barker, W. S., "American Corporations and Their Executives," *Quarterly Journal of Economics*, November, 1925, pp. 50, 51.

panies paid a cash bonus in addition to salaries to one or more executives for one or more years; of these, two companies paid most of their executives each year only a certain percentage of earnings. Thirteen companies used both the cash and the stock bonus method, seven of these paying their executives both forms of bonus as well as salary, and six paying some of their executives cash bonuses and others stock bonuses in addition to salary, at some time during the period. Exhibit 87, column 1, indicates the methods used by individual companies.

In 1929, 18 companies, out of 57 for which data were available from the Federal Trade Commission, paid their executives a salary only. In 1936 available information indicates that at least 39 companies in the same group paid their executives in this way. All but one of the companies paying salary only in 1929 used this method in 1936 also, including Consolidated Oil Corporation, The Atlantic Refining Company, The Firestone Tire and Rubber Company, The B. F. Goodrich Company, and United Fruit Company. Thirty-nine of the 57 companies paid a bonus in addition to salary to certain of its executives in 1929, while in 1936 only 16 companies used this method. The 15 companies paying bonuses in both years include Corn Products Refining Company, Liggett & Myers Tobacco Company, E. I. du Pont de Nemours & Company, and Eastman Kodak Company.

Seven companies gave certain of their executives a stock bonus in addition to salary in 1929, some of these companies, as for example, R. H. Macy & Co., Inc., making an outright grant of stock. Other concerns, such as The Goodyear Tire & Rubber Company, required the executives to make an initial payment on stock allotted to them, the stock to be issued, with certain provisos, some years after the date of allotment. In both 1929 and 1936 three companies paid certain of their executives a cash bonus in addition to salary and also gave them an option to purchase stock at a price substantially below the market price.

EXHIBIT 87.—INFORMATION CONCERNING INCENTIVE EXECUTIVE COMPENSATION FOR EACH OF 59 LARGE INDUSTRIAL COMPANIES[1]

Company	Type of supplementary payment: Cash or stock bonus, or both (1)	Type of supplementary payment: Options, employee stock-purchase plans, or both (2)	Definite bonus plan (3)	No. of executives receiving additional compensation as indicated in Federal Trade Commission Reports (many = more than 6) (4)
American Locomotive Company	Cash	None	*	Many
American Radiator & Standard Sanitary Corporation	None	None		
American Rolling Mill Co. (The)	Cash	E. stock-pur. plan	Yes	Many
American Smelting and Refining Co.	Cash	None	Yes	Many
American Sugar Refining Co. (The)	Cash	E. stock-pur. plan	*	Many
American Tobacco Company (The)	Cash	E. stock-pur. plan	Yes	Many
American Woolen Company	Cash	E. stock-pur. plan	Yes	Few
Anaconda Copper Mining Company	Cash	None	*	Few
Atlantic Refining Company (The)	None	E. stock-pur. plan		
Bethlehem Steel Corporation	Cash	E. stock-pur. plan	Yes	Many
Borden Company (The)	Cash	E. stock-pur. plan	Yes	Many
Chrysler Corporation	Both	E. stock-pur. plan	Yes	Many
Consolidated Oil Corporation	None	E. stock-pur. plan		
Continental Oil Company	Cash	Options	Yes[2]	Many
Corn Products Refining Company	Cash	E. stock-pur. plan	Yes	Many
Crucible Steel Company of America	Cash	None	*	Few
E. I. du Pont de Nemours & Company	Both	E. stock-pur. plan	Yes	Many
Eastman Kodak Company	Cash	None	Yes	Many
Firestone Tire & Rubber Co. (The)	None	E. stock-pur. plan		
General Electric Company	Both	E. stock-pur. plan[3]	Yes	Many
General Motors Corporation	Both	E. stock-pur. plan	Yes	Many
B. F. Goodrich Company (The)	None	E. stock-pur. plan		
Goodyear Tire & Rubber Co. (The)	Both	E. stock-pur. plan	Yes	Many
Inland Steel Company	Both	E. stock-pur. plan	*	Many
International Harvester Company	Cash	E. stock-pur. plan	*	Many
International Shoe Company	Cash	E. stock-pur. plan	*	Few
Jones & Laughlin Steel Corporation	Cash	E. stock-pur. plan	Yes[4]	Many
Kennecott Copper Corporation	None	None		
S. S. Kresge Company	Cash	Stock-pur. agree.[5]	Yes	Many
Liggett & Myers Tobacco Company	Cash	None	Yes	Many
Loew's Incorporated	Cash	Options	Yes	Few
R. H. Macy & Co., Inc.	Both	None	Yes	Few
Marshall Field & Company	Cash	Options	*	Few
Montgomery Ward & Co., Inc.	Cash	Both	Yes	Many
National Dairy Products Corporation	Cash	E. stock-pur. plan	*	Few
National Lead Company	Cash[6]	E. stock-pur. plan	Yes	Few
Ohio Oil Company	None	None		
Phelps Dodge Corporation	Cash	Both	*	Few
Phillips Petroleum Company	None	E. stock-pur. plan		

EXHIBIT 87.—INFORMATION CONCERNING INCENTIVE EXECUTIVE COMPENSATION FOR EACH OF 59 LARGE INDUSTRIAL COMPANIES.[1]—(Continued)

Company	Type of supplementary payment		Definite bonus plan	No. of executives receiving additional compensation as indicated in Federal Trade Commission Reports (many = more than 6)
	Cash or stock bonus, or both	Options, employee stock-purchase plans, or both		
	(1)	(2)	(3)	(4)
Pittsburgh Coal Company	Both	E. stock-pur. plan	Yes	Few
Procter & Gamble Company	Cash	E. stock-pur. plan	Yes	Many
Pure Oil Company	Cash	E. stock-pur. plan	Yes	Many
Radio Corporation of America	Cash	None	No	Many
R. J. Reynolds Tobacco Company	None	None		
Sears, Roebuck and Co	Cash	Options	*	Many
Shell Union Oil Corporation	Cash	None	*	Few
Standard Oil Company of California	None	None		
Standard Oil Company (New Jersey)	Cash	E. stock-pur. plan	*	Many
Texas Corporation (The)	Both	E. stock-pur. plan	Yes	Many
Tide Water Associated Oil Company	Cash[7]	E. stock-pur. plan	*	Few
Union Carbide and Carbon Corp	Both	E. stock-pur. plan	Yes	Many
United Fruit Company	None	E. stock-pur. plan		
United States Rubber Company	Both	Both	Yes	Many
United States Steel Corporation	Both	E. stock-pur. plan	Yes	Many
Warner Bros. Pictures, Inc	Both	None	*	Many
Westinghouse Electric & Manufacturing Company	Cash[8]	None	Yes	Many
Wheeling Steel Corporation	None	E. stock-pur. plan		
F. W. Woolworth Co	Cash	E. stock-pur. plan	Yes	Many
Youngstown Sheet and Tube Company (The)	Cash	Both	*	Many

* Data not available.

1 To prepare this exhibit the reports filed by all companies during the period 1928–1936 were examined. If a company paid supplementary compensation to any officer in any one of the years, the fact is reflected in the data presented.

2 The plan was adopted Jan. 20, 1937 for 1937.

3 This plan was in operation prior to 1928.

4 A five-year contract covering the period 1930–1935 gave the president a fixed salary plus a bonus. Bonus payments were also made for the years 1928–1930 to several of the executives, but no definite information on plans or contracts is available.

5 Stock-purchase agreement with one officer.

6 One director of National Lead Company received a share in the profits of a subsidiary in his capacity as president of the subsidiary.

7 The company stated in 1933 that it paid no bonus. However, Federal Trade Commission figures for 1928–1932 appear to show bonus payments. These might have been paid by subsidiaries.

8 Bonus payments for 1928, 1929, 1931, and 1932 were made by a subsidiary. In 1934 the parent company adopted an incentive payment plan to go into effect in 1935.

Two companies, F. W. Woolworth Co. and S. S. Kresge Company, paid most of their executives a commission only in both 1929 and 1936, based on net profits. S. S. Kresge gave each executive a drawing allowance which was deducted from commission when determined, except the president and chairman of the board, who were paid a straight salary and a bonus. Certain positions in F. W. Woolworth Co. carried a guaranteed minimum remuneration, the executive receiving in addition only the amount by which his designated percentage of profits exceeded this minimum.

Exhibit 88 gives the number of companies paying bonuses[1] in 1929 and the number having bonus plans in 1936, according to 18 industrial groups. Although the information given for the two years is not exactly comparable, the great decline in the use of bonus plans in the latter year, as pointed out above, is clearly indicated. Unfortunately, with one exception, so few of the companies in the sample were in any one industrial group that it was impossible to discover whether such plans and payments were characteristic of particular industries in these two years. The exception is the petroleum industry; of the 11 companies in the sample, only 5 paid bonuses in 1929, and only 1 had a bonus plan in 1936.

It might be well to point out before going further that there are four distinct groups of companies: (*a*) those paying a straight salary only to their executives; (*b*) those having bonus plans in some form but not paying bonuses; (*c*) those having no formal bonus plans but paying additional compensation to their executives; and (*d*) those having definite bonus plans and paying their executives according to these plans. It is obvious that companies would fall into Group

[1] These companies reported to the Federal Trade Commission for the years 1928–1932 a substantial amount paid to one or more of its executives in addition to salary. For 1934, 1935, and 1936, data available from reports to the Securities and Exchange Commission include only information as to whether or not a company had a bonus plan.

(*b*), for instance, if their bonus payments were based on a percentage of earnings over a certain amount and this quota was not reached.

EXHIBIT 88.—DISTRIBUTION ACCORDING TO 18 INDUSTRIAL GROUPS OF LARGE INDUSTRIAL COMPANIES PAYING BONUSES IN 1929 AND HAVING BONUS PLANS IN 1936[1]

Industry	Total No. of companies	No. of companies paying bonuses in 1929 as indicated in Federal Trade Commission reports[2]	No. of companies reporting definite bonus plans to the Securities and Exchange Commission in 1936[2]
Building equipment	1	0	0
Tobacco	3	2	2
Iron and steel	8	6	2
Metal (non-ferrous)	5	2	2
Food (including dairy, sugar)	5	4	2
Textile	1	0	0
Petroleum	11	5	1
Coal	1	1	0
Chemical	3	2†	3
Amusement supplies	1	1	1
Rubber products	4	2	2
Electrical equipment	2	2	2
Machinery	2	2	0
Shoe	1	1	0
Retail:			
Variety chains	2	2	2
Department stores	2	2	1
Mail order houses	2	2	1
Moving picture	2	2	1
Radio	1	1	0
Automobile	2	‡	2
Total	59	39	24

† Information available from the Securities and Exchange Commission and other sources indicated that one additional company had a bonus plan in 1929; no bonus payments for the company for that period, however, were reported to the Federal Trade Commission.

‡ Detailed executive compensation data were not available from the Federal Trade Commission for the two companies in the automobile industry. Other sources, however, indicate that at least one of these firms, and possibly both of them, made bonus payments to executives in 1929.

[1] Based on an analysis of the 59 companies listed in Exhibit 87.

[2] Data for 1929 obtained from the Federal Trade Commission covered payments only, while information for 1936, obtained from the Securities and Exchange Commission, related in most instances to plans rather than payments.

A study of incentive compensation plans for 100 industrial companies listed on the New York Stock Exchange

during the period 1928–1932[1] supports the conclusion that bonus payments were prevalent among American corporations in the late 1920's, and the decline in their use began in 1931. Approximately two-thirds of these companies paid their executives some form of bonus in 1929. A much smaller number, however, reported bonus plans or payments to the Securities and Exchange Commission in 1936. The significance of this decline cannot at present be determined. It seems apparent, however, that (*a*) bonus plans operate in a period of business recession, although payments decline rapidly; (*b*) such plans do not function in periods of deep depression; (*c*) they are revived slowly after such periods; and (*d*) since 1931 the trend in corporate practice may have been away from bonus plans.

Salary Method

In any discussion of executive compensation the problem referred to in the Taussig and Barker study of fixed salary contrasted with bonus or incentive payments merits consideration. As with most problems, too little thought is given to the simplest and most direct solution. Certainly the fixed-salary method is one of the least complicated. A salary is generally considered as cash payment for time and effort contributed by the executive in carrying out the proper functions of his position. Theoretically, however, it signifies much more: in a vague way, it is based on the size of a company and its ability to pay, earnings over a period of years, responsibilities of the office, competitive demand for executives, standards of living, and occasionally stock ownership. That this method, as is sometimes stated or implied, is outmoded, is not necessarily a fair conclusion, for at least 39 of the 59 companies considered in this study paid their executives a fixed salary in 1936. Companies using other methods early in the period discarded them in many

[1] Baker, John C., "Incentive Compensation Plans for Executives," *Harvard Business Review*, Autumn, 1936, p. 44.

instances during the depression and turned again to this more direct way of paying executives.

Furthermore, it must not be concluded that salary payments, as sometimes suggested, are low among the companies using this method of compensation. The median payment in 1929 for presidents of such firms was $80,000; in 1932, $64,000; and in 1936, $71,000. In 1929 salary payments to presidents ranged from $18,000[1] to $345,000, while in 1932 these payments ranged from $18,000 to $249,000 and in 1936 from $18,000 to $165,000. It is interesting to note here that the range was narrower in 1936 than in 1929 and 1932.

One disadvantage of paying a fixed salary is what has been described as "lack of incentive." Certainly this method does not permit any participation in profits, whatever the merits of such participation may be. However, the payment of such substantial salaries as are indicated above should in itself constitute a real incentive.

It is interesting to reflect on what Taussig and Barker's comments might have been if salary payments had been as large during the period they studied as in 1929 and 1936, if the functioning of bonus plans as revealed by a study of the latter period had been known, and if recent corporate history had been available for their examination.

History of Bonus Plans

Before delving deeply into the various plans to be analyzed, it is important to survey briefly bonus or incentive compensation plans as they have developed in this country. Their history is vague and sketchy, both because of secrecy regarding them and because of the changing terminology used in describing them. Piece rates, standards, profit sharing, and bonus or incentive payment plans for executives need not and do not mean the same, and yet confusion in thinking and writing is such that they often are con-

[1] The president was a large stockholder, and all officers were paid low salaries.

sidered together. Incentive compensation plans for executives apparently had their genesis in the minds of those considering wage payments and profit-sharing plans for employees as related to results, which were widely discussed in this country and in Europe from 1875 to 1920. The movement also probably received some impetus from the frequent discussion of the distribution of industrial profits.

In examining the limited literature[1] pertaining most directly to the subject of bonus plans for executives, it is important to note that most of it favored such plans. Such general approval arose largely from the recognition of the contribution of management to profits. As the actual functioning of certain of these plans during good and bad years was revealed, however, it became evident that the plans might lead to serious abuses, either from their inflexible nature or in tempting management to forget its fiduciary relationships to the real owners, the stockholders. In the past, articles and other published material pertaining to bonus plans were based for the most part on meager confidential information. Furthermore, corporate organization was somewhat different from that which exists today. The evidence presented is based on theory, opinions of executives, and opinions of protagonists of the plans from humanitarian, personal, and economic points of view. Few definite figures on profits or on the percentage of profits paid to executives were obtainable when previous conclusions concerning such plans were drawn. Hence, the evidence, although the best available in the past, cannot be taken as conclusive at the present time; in fact, such specific information as is now available might well have altered past conclusions.

One of the first important incentive plans for executives was that of the United States Steel Corporation, adopted in 1902, just after the founding of the corporation. This plan seems to have met with general approval, since an examina-

[1] See Bibliography, pp. 263–264.

tion of the records discloses no litigation over it up to the time of its abrogation in 1935. The company followed the practice of giving information concerning additional compensation in annual reports to stockholders, and it also made public detailed information about the plan from time to time. The plan of the Bethlehem Steel Corporation caused litigation even though voted upon by stockholders. Little definite information was made public concerning the functioning of the bonus arrangement, however, until after stockholders had taken legal action.

That there is still much informality about bonus plans and payments is indicated by the fact that only two-thirds of the companies reporting bonus payments had definite bonus arrangements.[1] The remaining companies gave little information on such policies to the Securities and Exchange Commission. This situation is in accord with that indicated by the previous study of a sample of 100 industrial companies, only slightly over half of which had definitely established bonus plans.[2]

Stock-purchase Plans and Options

An indirect method of paying additional compensation to executives as well as to other employees is the stock-purchase plan, permitting the purchase of stock at an advantageous price. From several points of view this method is in the nature of a bonus plan. The objectives appear to be the same, and with such plans often goes the right to elect cash payments in lieu of stock. Students of

[1] An example of a company having no formal bonus arrangement and yet paying additional compensation is that of the American Smelting and Refining Company. In 1936 the company stated on a Securities and Exchange Commission form that it had no material bonus and profit-sharing arrangements in effect of the kind and character described by the commission. However, it reported at the end of 1936 a payment of 4 % of annual salary as additional compensation to all salaried employees. The president of his own volition did not participate. In previous prosperous years a similar policy had been followed, with payments ranging as high as 10 % of annual salary.

[2] Baker, *op. cit.*

employee stock-purchase plans have, with certain notable exceptions, made only feeble attempts, however, to differentiate between the application of such plans to executives and to the rank and file of employees. At present, the chief difference often lies merely in the number of shares for which officers and employees may subscribe. It is doubtful whether employees with small or modest salaries should be exposed financially to the hazards and uncertainties of such investments. Their need is security, rather than a chance for speculative profit.[1] The use of these plans for management is an entirely different question and may have real merit.

Thirty-five of the entire group of 59 companies had employee stock-purchase plans; 4 more granted options in addition to the privilege of purchasing stock, and 4 granted options without stock-purchase plans. In other words, almost three-fourths of the group of 59 companies had employee stock-purchase plans, options, or both at one time or another from 1928 to 1936.

Fifteen companies with stock-purchase plans terminated such arrangements between 1928 and 1936. Among the companies discontinuing such plans in 1935 and 1936 were the United States Steel Corporation and The Texas Corporation.

Closely allied to the question of stock-purchase plans is that of options granted to management. A careful attempt to classify and analyze such arrangements led to little success, for the details of only a few plans were available and each plan was different. Two of these option plans, those of Marshall Field & Company and of Montgomery Ward & Co., Incorporated, apparently were adopted when new management was desired. A third plan, that of Loew's Incorporated, seems to be part of the company's compensation plan. Both Montgomery Ward and Marshall Field companies gave options for 100,000 shares.

[1] "Profit Sharing Is Probably Not the Thing to Do," *Factory Management and Maintenance*, May, 1937, p. 51.

Loew's gave options for 50,000 shares to one of its executives in 1934. The life of the various options covered a period of years. Total options granted in every instance included only a small percentage of total stock outstanding.

Objectives of Bonus Plans

Bonus or incentive compensation plans, even among the group of large industrial companies selected for analysis, vary greatly, although there are threads of similarity running through them. It is essential, therefore, to have clearly in mind the scope and objectives of such plans. The names used to describe these plans are numerous and significant, the following list illustrating the diversity in the titles:

Incentive compensation plan
Profit-sharing plan
Bonus plan
Contract between the company and certain executives
Employee profit-sharing plan
Executive stock-purchase and merit bonus plans
Commission arrangement
Wage dividend
Management participation plan

The objectives of about one-half of the plans were definitely stated; in the other half no mention was made of them. When mentioned, the objective was generally "to provide an incentive to increase efficient and profitable management."[1] Irrespective of bonus plan provisions or functioning, their objectives or spirit stressed in almost every instance stockholders' welfare and interests.

[1] Other stated objectives were as follows: to give to all those carrying any responsibility in management every proper incentive for loyal, earnest, and efficient service; to facilitate the purchase of an interest in the common stock of the company by those men in the company's organization who have proved themselves qualified to occupy important managerial posts and to succeed to higher position, thereby assuring a distinct mutuality of interest with other stockholders in the continued progress of the company; to give added incentive to increase the profits of the company by increasing efficiency and economy of operations; to reward especially meritorious service.

The scope of the plans, because of special provisions, becomes wider than indicated by the objectives; thus any definition must be general and, perforce, vague. The same plan of compensation in many companies refers both to executives and to those who contributed or performed definite services distinctly outside executive functions. For the purpose of this analysis, however, incentive compensation or bonus plans are those plans providing for the payment of compensation to executives in addition to regular salaries, either by cash, stock, or rights to purchase stock at preferential prices, in order to stimulate initiative and efficiency, and to retain executives.

Bases of Establishment

What corporate commitments are made when a bonus plan is adopted? This depends almost entirely on the character of the plan and the basis of its establishment. In Exhibit 89, column 1, appear the various ways in which the bonus plans of the companies reporting such plans were adopted. Sixteen companies stated clearly that bonus plans had been established as a policy, *i.e.*, by vote of the directors. Six of the companies had bonus plans established by contract, which made them much more binding legally than when established by vote of directors. Such contracts generally were with specific officers. In addition, four of the companies had plans apparently depending both on contract and on policy. Three companies had incorporated in their by-laws the main outlines of their bonus plans, which removed responsibility for the plans from directors. A decision concerning the most advantageous bonus plan for any corporation can only be reached after definite statement of the purpose of the plan and a careful study of its provisions by legal counsel. The fact that most of the companies established their bonus plans as a policy under directors' supervision suggests the freedom and flexibility offered by this method.

An examination of the various plans to discover the source of the power to administer them indicated a close

relationship between the way in which they were established and their administration.

Provisions for Changes in Plans

Bonus plans, no matter how established, quickly take on an air of permanence, particularly if they are in effect during a period of steady business conditions. That revisions are necessary and do occur, and therefore should be carefully provided for, is indicated by this study. About one-seventh of the companies with bonus plans discontinued them during the period studied. One-half made substantial changes or amendments to their plans and approximately one-fourth made no changes.

Incidentally, only 40% of all the companies with bonus plans had any special provisions for modification. If the balance of the companies had any arrangements for changes, these arrangements were not apparent or stated. With all the many corporate changes taking place constantly, and the possibilities of misunderstanding inherent in bonus plans, a surprisingly small number stress the necessity for adjustments. In the du Pont plan, for example, the right is specifically reserved to amend, change, or discontinue, provided such action does not affect awards already made. Rigidity is even injected into some plans, as, for example, that of The American Tobacco Company, where modification or repeal may be achieved only by vote of stockholders.

Rigidity in plans or failure to revise them may lead to distorted results and, because of publicity, may in the future, even more than in the past, precipitate litigation. During the period under consideration five of the companies examined having bonus plans incurred litigation.

Participants in Bonus Payments

By no means the simplest problem in devising any bonus plan is the selection of executives to participate in such a plan, and present-day corporate publicity makes it a most

EXHIBIT 89.—DATA ON MOST RECENT BONUS PLANS OF 30 LARGE INDUSTRIAL COMPANIES REPORTING DEFINITE PLANS

Company	Method of establishment[1]	Knowledge of plan by stockholders		Calculation of bonus payments		Plan revised or terminated
		Plan approved by stockholders	Plan mentioned in published company reports	Basis of calculation	Income deductions[2] for stockholders before calculation	
	(1)	(2)	(3)	(4)	(5)	(6)
American Rolling Mill Company (The)	By policy	Approved	Mentioned	Earnings	Deduction	Revised
American Smelting and Refining Company[3]	By policy	*	Mentioned	Annual salary	No deduction	Not revised
American Tobacco Company (The)[4]	By by-law	Approved	Mentioned	Earnings	Deduction	Revised
American Woolen Company[5]	By contract	Approved	Not mentioned	Earnings	Deduction	Terminated
Bethlehem Steel Corporation[5]	By by-law	Approved	Mentioned	Earnings	Deduction for pref. div. only[6]	Revised
Borden Company (The)[5]	By policy	Approved	Mentioned	Earnings	Deduction	Revised
Chrysler Corporation	By policy	Approved	Mentioned	Earnings	Deduction	Revised
Continental Oil Company[7]	By policy	Not approved	Not mentioned	Earnings	No deduction[8]	Revised
Corn Products Refining Company	By policy	Approved	Not mentioned	Earnings	Deduction	Revised
E. I. du Pont de Nemours & Company	By policy	Approved	Mentioned	Earnings	Deduction	Revised
Eastman Kodak Company	By policy	Approved	Mentioned	Dividends[9]	No deduction	Not revised
General Electric Company	By policy	Approved	Mentioned	Earnings	Deduction	Not revised
General Motors Corporation[5]	By policy; by contract[10]	Approved	Mentioned	Earnings	Deduction	Revised
Goodyear Tire & Rubber Company (The)	By policy and contract	*	Not mentioned	Earnings	Deduction	Not revised
Jones & Laughlin Steel Corporation[11]	By contract	*	Not mentioned	Earnings	No deduction	Terminated
S. S. Kresge Company	By policy and contract	*	Not mentioned	Earnings	No deduction	Not revised
Liggett & Myers Tobacco Company	*	Approved	Not mentioned	*	*	*
Loew's Incorporated	By contract	*	Not mentioned	Earnings	Deduction	Not revised
R. H. Macy & Co., Inc	By contract	*	Not mentioned	Earnings[12]	No deduction	Revised
Montgomery Ward & Co., Incorporated	By policy	*	Not mentioned	Earnings	Deduction	Revised
National Lead Company[13]	By contract	*	Not mentioned	Earnings	No deduction	*
Pittsburgh Coal Company	By policy	*	Mentioned	*	No deduction	*
Procter & Gamble Company	By policy	*	Not mentioned	Earnings	No deduction	Revised
Pure Oil Company	By policy	Not approved	Not mentioned	Earnings[14]	No deduction[8,14]	Not revised
Texas Corporation (The)[15]	By policy	Not approved[16]	Mentioned[17]	Earnings	Deduction	Terminated
Union Carbide and Carbon Corporation	By policy	Approved	Mentioned	Earnings	No deduction	Revised
United States Rubber Company	By policy; by contract[10]	Approved	Mentioned	Earnings	Deduction	Revised
United States Steel Corporation	By policy	Approved	Mentioned	Earnings	Deduction	Terminated
Westinghouse Electric & Manufacturing Co.	By by-law	Approved	Mentioned	Earnings	No deduction[18]	Revised
F. W. Woolworth Co	By contract	Not approved	Not mentioned	Earnings	No deduction	Not revised

* Data not available.

[1] The word "policy" is used to indicate that bonus payments apparently have been sanctioned by established policy of the company rather than by formal by-law or bilateral contract.

[2] The word "deduction" is used to indicate that a minimum prearranged dollar amount of profit, set rate of return on invested capital, or minimum earnings per common share must be deducted from balance available for dividends before computing bonus paid for the year.

[3] See footnote 1, p. 195.

[4] The American Tobacco Company incurred litigation on its stock allotment plan.

[5] Litigation was incurred by this company with reference to its bonus plan.

[6] The compensation fund established by this company to meet bonus payments to officers depends on earnings after dividends on preferred stock have been paid. No bonus payments are made to executives, however, until dividends on common stock also have been paid; the amount of bonus is dependent on the amount of dividends paid on common stock.

[7] The plan referred to was adopted Jan. 20, 1937, for 1937.

[8] A minimum amount must be earned but is not deducted from balance available for dividends.

[9] The amount of bonus is dependent upon the amount of common dividends paid during the preceding year.

[10] Reference is made to more than one plan operating concurrently.

[11] A five-year contract covering the period 1930–1935 gave the president a fixed salary plus a bonus. Bonus payments were also made for the years 1928–1930 to several of the executives, but no definite information on plans or contracts is available.

[12] According to modified contracts, bonus is dependent upon the ratio of earnings in any one year to earnings at the time of inception of plan.

[13] One director of National Lead Company received a share in the profits of a subsidiary in his capacity as president of the subsidiary.

[14] A total of $50,000 may be paid for especially meritorious service irrespective of earnings.

[15] The plan of The Texas Corporation was subjected to an investigation.

[16] Published reports disagree as to whether the plan was approved by the stockholders.

[17] The plan was mentioned after its repeal.

[18] Amount of bonus cannot exceed a certain percentage of the total dividends, but no deductions are made for stockholders before computing bonus.

NOTE: This exhibit was prepared after careful examination of annual reports and other public corporate records over a period of years. If other information is available which would have changed these statements or conclusions, implied or otherwise, the author wishes to acknowledge here his oversight and that of his assistants and would appreciate receiving any information which would help correct any false impression.

disturbing problem. Any bonus plan, to be sound and just, should reimburse the proper officers. Exhibit 90 was prepared to throw as much light as possible on this problem

EXHIBIT 90.—ANALYSIS OF THE NUMBER OF COMPANIES PAYING AND OF OFFICERS AND DIRECTORS RECEIVING BONUSES; 56 LARGE INDUSTRIAL COMPANIES:[1] 1928–1932

Items	1928	1929	1930	1931	1932
Total number of companies	54	56	56	56	56
Companies paying a bonus (stock or cash):					
Number	38	39	40	27	25
Percentage of total number of companies	70 %	70 %	71 %	48 %	45 %
Companies paying a bonus to president:					
Number	27	28	32	20	14
Percentage of bonus paying companies	71 %	72 %	80 %	74 %	56 %
Number of bonus paying companies with a chairman of the board	27	27	29	17	15
Companies paying a bonus to chairman of the board:					
Number	7	6	10	2	0
Percentage of bonus paying companies with a chairman of the board	26 %	22 %	34 %	12 %	0 %
Companies paying a bonus to vice presidents:					
Number	33	36	35	22	17
Percentage of bonus paying companies	87 %	92 %	88 %	81 %	68 %
Companies paying a bonus to treasurers:					
Number	28	30	30	18	14
Percentage of bonus paying companies	74 %	77 %	75 %	67 %	56 %
Number of bonus paying companies with an assistant treasurer	19	19	18	13	9
Companies paying a bonus to assistant treasurer:					
Number	17	16	14	9	6
Percentage of bonus paying companies with an assistant treasurer	89 %	84 %	78 %	69 %	67 %
Companies paying a bonus to secretary:					
Number	27	30	28	15	11
Percentage of bonus paying companies	71 %	77 %	70 %	56 %	44 %
Companies paying a bonus to directors (not officers):					
Number	11	13	10	9	6
Percentage of bonus paying companies	29 %	33 %	25 %	33 %	24 %

[1] Three companies were not included, since information submitted by them did not permit analysis for this exhibit. In 1928, for the same reason, two additional companies were excluded. Because of this, information will not agree with similar information in columns 8, 9, and 10 of Exhibit 92, or the last column of Exhibit 96.

for the period 1928–1932. Similar information for the years 1933–1936 was not available.

The two chief officers of most corporations are the president and the chairman of the board. Should these

two men receive bonuses? The majority within and without corporations doubtless would approve of such payments. It is surprising to learn, however, from an analysis of 56 companies, that in 1929 only slightly over one-fifth of the companies with bonus plans included chairmen of the board; this number increased to about one-third in 1930, but in 1932 none of the companies paid a bonus to their board chairmen. Although many more companies paid bonuses to their presidents, the trend is somewhat similar; in 1929, 72% of the bonus paying companies made such payments, this percentage increasing to 80% in 1930 and declining to 56% in 1932.

This situation deserves even more attention because almost all companies with bonus plans specifically forbade directors or other corporate officers from voting on the plan, selecting participants, or determining amounts, if they were eligible for a bonus.

The results of similar studies of bonus payments to vice presidents, treasurers, assistant treasurers, secretaries, and directors, are indicated in Exhibit 90. It is unfortunate that the specific duties and functions of vice presidents are unknown. However, there is no question that there was a wide use of bonus payments to vice presidents, whatever their functions. Payments to treasurers, assistant treasurers, and secretaries are worthy of note. Payments to directors who were not officers seldom occurred. Unfortunately, our basic data do not disclose payments to officers of subsidiaries and men in other official positions. Nevertheless, with all its limitations, Exhibit 90 should be of real significance in considering the important question of who received a bonus.

While the plans studied often failed to include one or several of the above-mentioned officers, they frequently did include other employees numbering as high as several hundred. It is important to examine the eligibility clauses of all the plans to discover the number of participants.

Thirteen companies, as shown in Exhibit 87, column 4, limited payments to from one to six executives. Thirty-four companies included more than six, the majority of whom were probably not executives. The most common stipulation concerning eligibility in the group covering numerous employees stated, "Participants shall be officers and employees as determined by the Board of Directors." Among the companies following such a policy were E. I. du Pont de Nemours & Company, Westinghouse Electric & Manufacturing Co., and The Borden Company.

The significance of all of these facts should not be overlooked. The reasons for them are unfortunately obscure and can only be ascertained after a thorough investigation of each company, which is impossible here.

Stockholders and Bonus Plans

Although the objectives of most bonus plans indicate a desire to further stockholders' interests, after reading and analyzing many plans one can readily see certain features which might be divergent from, rather than harmonious with, these interests. Today, under existing corporate organization, there need not be any mutuality of interest between stockholders and management-executives. Executives in such large corporations as those included in this study have only a small stock interest. Their influence, however, which naturally affects bonus plans, is in many companies far greater than that of even a substantial stock ownership, because of actual powers of control arising from their prominent positions in the companies. It is important, therefore, to examine critically the ties between such plans and stockholders.

An important point in examining this relationship is whether the executives in bonus paying or in non-bonus paying companies receive the larger share of earnings. Exhibit 91, which shows median figures for 50 companies classified according to payment of bonuses in 1929 and 1936, indicates that the officers of bonus paying companies received

EXHIBIT 91.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS[1] AND SALES FOR LARGE INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO PAYMENT OF BONUSES IN 1929 AND 1936: 1929, 1936, AND 1928–1936 COMBINED[2]

Items	Executive compensation											
	% of earnings						% of sales					
	1929		1936		1928–1936 combined		1929		1936		1928–1936 combined	
	No. of companies[3]	Median %	No. of companies[3]	Median %	No. of companies[3]	Median %	No. of companies[3]	Median %	No. of companies[3]	Median %	No. of companies[3]	Median %
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
All companies	50	2.9	47	3.5	50	4.9	35	0.3	33	0.3	35	0.4
Companies paying a bonus in 1929	35	4.2	32	4.0†	35	5.5	24	0.4	22	0.3†	24	0.4
Companies not paying a bonus in 1929	15	1.6	15	2.6†	15	4.5	11	0.3	11	0.3†	11	0.4
Companies paying a bonus in 1936	12	5.2	12	4.0†	12	6.7	7	0.4	7	0.4†	7	0.5
Companies not paying a bonus in 1936	34	2.1	34	3.5†	34	4.6	25	0.3	25	0.3†	25	0.3

† In preparing this median figure an estimate was included for one company.

1 Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

2 These percentages are based on aggregates for the period 1928–1936, exclusive of 1933 when the Federal Trade Commission data covered nine months only. For some firms the averages covered fewer than the eight years. See the detailed list of companies given in Exhibits 98 (pp. 230–231), and 99 (p. 232).

3 Only those 50 companies having the most adequate earnings and executive compensation data available were considered in preparing the data for this exhibit. (The firms are identical with those used in arriving at the median in column 1, Exhibit 77.) It was not possible, however, to secure complete annual figures for earnings, executive compensation, and sales for all 50 firms. For the year 1936, for example, usable earnings and compensation material was available for only 47 companies. Figures for one of these 47 companies could not be used in preparing the medians for executive compensation as a percentage of earnings presented in the lowest section of the exhibit, since information was lacking concerning bonus payments for 1936. Sales figures were secured for a maximum of 35 companies in the two years 1929 and 1936. Consequently the median percentages for executive compensation in relation to sales are based on the figures of fewer firms than are the figures for compensation in relation to earnings.

the larger share of earnings for each period. Percentages based on the relationship of executive compensation to sales (columns 7–12) also are interesting. The greatest spread occurs in column 12 for the 1928–1936 period, when companies paying bonuses in 1936 paid 0.5% of sales to executives over the period as contrasted to 0.3% for companies not paying bonuses in 1936. To some extent the real significance of these figures is reduced by not showing the range of percentages among the companies.

All evidence suggests that stockholders have very little to do with any of the bonus plans in large, widely owned companies. The extent to which such plans had the approval of stockholders, as indicated in column 2 of Exhibit 89, throws much light on the subject of how little stockholders know about important corporate matters. Only about one-half of the plans definitely known to exist were approved by stockholders; the balance apparently were adopted without submission to stockholders. This was also true in the study of 100 large and small corporations, only one-half of which had their bonus plans approved by stockholders at one time or another between 1928 and 1932. Recent court records of bonus litigation frequently contained the statement that "none of the acts or proceedings in question were ever ratified by stockholders." Owners sometimes were informed, or could have learned from minor items in annual reports, that such plans existed, but knew none of the details concerning them.

The failure of the great majority of large corporations to expose proposed bonus plans to the critical consideration of stockholders apparently has been characteristic of industry in the past. The United States Steel Corporation's plan, adopted in 1902, was not voted on by stockholders until 1921, although they had full knowledge of the plan, as pointed out previously, and could have little complaint even though they had not voted on it. A condition of secrecy naturally places great responsibility on the officers and directors of corporations having bonus plans.

Full publicity lightens this responsibility considerably, which is an important reason for complete disclosure.

At present there is a definite tendency for corporations to have their incentive compensation plans approved in entirety by stockholders. From a corporate point of view this tendency is wise; from the stockholders' point of view it is of little significance unless the plans are appraised critically by competent individuals. An example of stockholder ineptitude is the case of the American Woolen Company.[1] Stockholders voted for a contract bonus plan without realizing its significance. Incidentally, it would appear that the executive officers, as well as the corporation counsel, apparently were equally uninformed about the long-term possibilities of this plan, which was finally abrogated.

Information to stockholders on the functioning of bonus plans has been as meager as the information about the plans themselves, although such information has increased in recent years. A careful examination of annual reports and other documents indicated that only slightly over one-half of the companies known to have plans or one-third of the companies paying bonuses mentioned the amount of the payments or the functioning of their plans. For the 1928–1932 period only 29% of the companies paying bonuses reported such payments to stockholders, but 41% of the companies paying bonuses reported the amounts in annual reports from 1934 to 1936.

Some companies in recent years have definitely committed themselves to reporting information about incentive payment plans. In 1931, upon settlement of the litigation over the Bethlehem Steel Corporation's bonus plan, a specific provision was included stating that total executive bonus payments should be reported annually to stockholders. The same is true of the Westinghouse Electric & Manufacturing Company's plan.

That stockholders have a definite interest in the determination of bonus payments can scarcely be questioned,

[1] Full details regarding this plan are given on pp. 227–228.

and yet this has been overlooked in many bonus plans. Both public opinion and legislation have recently favored publicity for all corporate affairs, and it is evident that more publicity rather than less is in prospect. Therefore, one may fairly conclude simply from a legal point of view that it will be sound policy for directors and executives to favor full publicity in the future regarding both bonus plans and actual payments.

One very definite trend significant to stockholders is the inclusion of clauses in the provisions of all plans limiting the possibilities of bonus payments. Certain of these clauses require that the corporation earn a specific percentage of total capitalization before bonus payments may be made; others require the payment of dividends on both preferred and common stocks; and still others limit payments to a fraction of the amount paid stockholders. Such limitations help avoid public misunderstanding and litigation, but tend to reduce the incentive feature of bonus plans and destroy what value there is, if any, in such incentive arrangements.

Another question of importance to stockholders is the policy of paying bonuses when dividends are not being paid. In 1929, of 39 bonus paying companies only 3 failed to pay dividends on all classes of stock, and only 2 of 18 companies not paying bonuses failed to do so. In 1936 only 1 of 16 companies paying bonuses did not pay dividends on all classes of stock; and of 39 companies not paying bonuses, 14 companies paid no dividends on any class of stock.

Attitude of Courts

In recent years the courts, in interpreting the fairness of bonus plans, have favored stockholders, taking the position that stockholders' consent is largely formal and fictional. If stockholders approve a vague plan, it often can be set aside in equity because stockholders approved blindly. Courts assume jurisdiction for various reasons, among

which are fraud, irregularities in the adoption of the plan, and failure to give stockholders sufficient notice or information. Judgment in the past as to the fairness of any particular bonus plan seems to a large extent to have depended on contemporary practice, or what little was known about it.

Bonus Fund and Tax Regulations

In plans adopted in recent years, there is frequent reference to the "bonus fund." This is the pool or fund into which all bonus payments are made before any distribution to officers. In 1936, at least two-thirds of all plans called for the use of a fund rather than for making direct distributions. There are at least two reasons for this: (*a*) convenience in distribution to numerous individuals; and (*b*) tax regulations.

Section 165 of the Revenue Act of 1936, entitled *Employees Trusts*, reads in part as follows:

> A trust created by an employer as a part of a stock bonus, pension or profit-sharing plan for the exclusive benefit of some or all of his employees, . . . for the purpose of distributing to such employees the earnings and principal of the fund . . . shall not be taxable under section 161, but the amount actually distributed or made available to any distributee shall be taxable to him in the year in which so distributed.

Bonus Payment Provisions

The method used in computing bonus payments is the heart of any bonus plan. Since compensation plans in themselves vary widely, methods of computing payments also differ. Practically all plans are based on total annual corporate earnings, as indicated by column 4, Exhibit 89, except in certain cases, such as the du Pont company, where individuals may be rewarded for exceptional achievements over a period of years by specific grants. Certain companies may have contractual relationships aimed at continuing some one individual or group of individuals in the employ of the company. Most plans carefully stress

the period for which payments are to be made and the methods by which payments are awarded.

Regulations covering administration to insure unbiased distribution of funds are, of course, important, but of equal, if not more, importance is the method of determining the total amount of these payments. On this latter point, in the past, plans frequently have been vague. Present-day plans, however, emphasize the method of computing the total bonus fund, and some of the variations in these methods are indicated in the following paragraphs.

It is almost impossible to overstress the variety of ways in which bonus payments are computed. Indeed, it is only by a careful study of each plan that these differences can be appreciated. Furthermore, changes in methods have been frequent, although few plans have been so drastically revised as that of the Bethlehem Steel Corporation. Some years ago the chairman of the board of this company stated that there should be no connection between payments to stockholders and bonus payments to executives. Now, there is a very close connection, as indicated by the following excerpts from the company's plan:

> . . . there is hereby established a Special Incentive Compensation Fund into which payments shall be made and out of which amounts shall be paid as special incentive compensation as hereinafter in this Article Tenth provided.
>
> There shall be paid into said Fund for each fiscal year of the Corporation an amount equal to 5 per cent of the consolidated net income of the Corporation and its subsidiary companies for such year, after deducting all fixed charges and depreciation (including obsolescence) and depletion, and the amount, if any, to be paid into said Fund for such year, and after deducting an amount equal to the dividends accrued for such year upon the preferred stock or preferred stocks of the Corporation outstanding, exclusive of any shares thereof held in the treasury of the Corporation and of its subsidiary companies. Said consolidated net income shall be as shown in the consolidated income statement of the Corporation and its subsidiary companies for such year as certified by independent public accountants after an audit by them of the accounts of the Corporation and its subsidiary companies in accordance with the customary practice of said accountants. When and to the extent

authorized by the Board of Directors, payments to said Fund in respect of said consolidated net income for any fiscal year of the Corporation may be made during such year, subject to final adjustment upon the completion by said accountants of their said audit for such year. . . .

Whenever any cash dividend shall be paid upon the Common Stock, then to the extent that the amounts that shall theretofore have been paid into said Fund out of earnings after December 31, 1935, and that the aggregate amount which shall then remain in said Fund shall be sufficient therefor, there shall be paid to the executives of the Corporation an amount equal to one-fifteenth ($\frac{1}{15}$th) of the aggregate amount of said cash dividend.

The apportionments of the amounts that shall be paid out of said Fund to the respective executives of the Corporation, as well as the amounts of their respective fixed salaries, shall be determined by the Board of Directors or by any one or more committees (none of which shall consist of less than three members) appointed by the Board of Directors from among its members; *provided, however*, that none of the executives of the Corporation shall as a member of the Board of Directors or of any such committee thereof have any vote in the determination of the amount that shall be paid to him out of said Fund or as a fixed salary.[1]

Another plan changed in important ways is that of The Borden Company. As now constituted, it limits both individual and total payments under its bonus plan as follows:

Effective for the calendar year 1935 an arrangement has been authorized by the Board of Directors of the registrant whereby the fixed salaries of officers and employees of the registrant and its subsidiaries (other than the President and Chairman of the Board of the registrant) may from time to time be increased and adjusted by action of the President of the registrant, subject to the limitation that the maximum compensation that any person may receive for the year 1935 shall not exceed the sum of $60,000, and shall not be more than twice the amount of his salary at the beginning of the year.[2]

This method of compensation was also put into effect for the years 1936 and 1937.

[1] Excerpts from report of the Bethlehem Steel Corporation to the Securities and Exchange Commission, Form 10K, 1936, Item 5.

[2] Excerpt from report of The Borden Company to the Securities and Exchange Commission, Form 10, 1934, Item 29.

Should a company increase or decrease the percentage of earnings paid to the bonus fund as its earnings increase? This is a question which frequently arises, the answers to which often are exactly opposite; Corn Products Refining Company and the Continental Oil Company constitute examples. The former decreases the percentage of earnings paid into the fund as earnings increase, and the latter increases the percentage set aside for its bonus plan as earnings increase, as shown by the following:

Corn Products Refining Company

From the annual net profits of the Company, after deducting all taxes, including Federal Income tax, there shall be first set aside a sum equal to 7% on the outstanding preferred and common stocks of the company. The sum to be paid as additional compensation to employees shall be equal to 15% of the first $1,000,000.00 in excess of the amount so set aside, 14½% of the second $1,000,000.00 of such excess and ½% less upon each succeeding $1,000,000.00 of such excess.[1]

Continental Oil Company

B. On January 20, 1937, the Board of Directors of the registrant approved a plan for the payment of additional compensation to employes in 1937 under which, if the consolidated net earnings for the twelve months period ending October 31, 1937 shall equal or exceed $7,500,000, a fund equal to the following percentages of the net earnings will be set aside for the payment of such compensation:

1. Four per cent if the net earnings are $7,500,000 to $10,500,000.
2. Five per cent if the net earnings are $10,500,000 to $13,500,000.
3. Six per cent if the net earnings are $13,500,000 or more.

Net nonrecurring gains and profits will not be included in the computation of earnings except to the extent authorized by the Board of Directors. Each eligible employe shall receive as additional compensation from the fund so created, that percentage of the salary or wages earned by him during the twelve months ending October 31, 1937, which the fund shall bear to the total pay roll for the same period.[2]

Another plan of much interest is that of the du Pont company, which not only outlines a method of computing

[1] Excerpt from report of Corn Products Refining Company to the Securities and Exchange Commission, Form 10, 1934, Exhibit "F."

[2] Excerpt from report of the Continental Oil Company to the Securities and Exchange Commission, Form 10K, 1936, Item 5.

such payments but also relates these payments to its stock-purchase plan.

(*a*) Common stock may be sold from time to time to eligible employees at prices fixed by the Finance Committee, the company receiving in payment therefor four interest-bearing notes maturing respectively at yearly intervals not beyond a maximum of 10 years for the last note. Such notes may be liquidated only by means of bonuses, dividends and credits provided under the plan. The stock is deposited with the company as security for the payment of the notes.

(*b*) Individual trust funds exist in which funds are accumulated for liquidating the notes. Each fund is comprised of bonuses awarded the employee plus the balance of dividends on the stock held as collateral after applying such dividends against the unpaid interest accrued on the notes. Interest is paid by the company on amounts held in trust.

Merit Bonus: Funds provided as follows:

1. An amount determined by the Finance Committee which cannot exceed 7½% of the surplus net receipts above 6% on the capital employed by the company and its substantially wholly-owned subsidiaries, which capital is primarily of an operative as distinguished from an investment character. (The capital employed in the calculation is the average of the 12 monthly amounts as shown on the books.)

"Net receipts" are those shown by the books after excluding those determined to be of an investment character and after deducting the operative portion of Federal taxes and undistributed expense exclusive of the amount credited to the Class "B" Bonus fund.

2. 6% of net earnings from activities under the control of the Executive Committee in excess of 6% upon the book investment in those activities, as shown by the company books and subsidiaries in which the company holds at least 50% of the common capital stock and excluding those activities under the control of the Finance Committee such as the General Motors Investment.

Liquidation of Notes: (1) When credits in the employee trust fund equal his indebtedness on or before maturity of his first note, certificates for the shares representing ¼ of the collateral are released to him. Then at yearly intervals the remaining notes are retired and a proportionate share of collateral released.[1]

Occasionally, plans which include differing important features are general in scope. Such plans may stress

[1] A digest of the principal features of the du Pont plan as explained in a booklet published by the company entitled, *Executives' Stock Purchase and Merit Bonus Plan.*

earnings very little and are frequently part of a contractual management agreement between a specific officer and the corporation. R. H. Macy & Co., Inc., for example, has a plan which falls into this classification.

In addition to the actual cash salary paid, there will be transferred at the end of each fiscal year an additional compensation in the form of common stock to certain officers.

On April 30, 1935, the agreements for stock distribution were modified so as to provide that instead of the fixed numbers of shares stated, said employees and officers mentioned shall receive for each fiscal year commencing with the fiscal year begun February 3, 1935, and for the remainder of their respective periods that proportion of the fixed number of shares originally stated, which the net profits of the company for the fiscal year preceding each such fiscal year, shall bear to the net profits of the company for the fiscal year ended January 31, 1931.[1]

Many plans in their methods of computing the amount to be placed in the bonus fund stress, as has already been indicated, the limitation of the amounts to be so set aside. A good example of such a plan is that of the Westinghouse company.

A fund is set up annually which in the aggregate cannot exceed 7% of the consolidated net income of the company and its subsidiaries for the year, after deducting fixed charges and depreciation including obsolescence. Further, the aggregate fund shall not exceed 10% of the total dividends paid on the common stock of the company for the year.

Subject to the above limitations, the total amount for bonus distribution and the amounts to be granted each participant are determined by those directors of the company not entitled to share in the payments, acting as a committee of the Board.

The total amount paid in any year must be reported to the stockholders in the Annual Report of the company for that year.[2]

In the previously mentioned study by the author, which covered 100 large and small corporations from 1928 to 1932, it was discovered that variations in methods of computing

[1] A digest of the plan of R. H. Macy & Co., Inc., made from photostatic copies of letters to individual officers which were furnished the Securities and Exchange Commission as exhibits with Form 10, 1934.

[2] A digest of the plan of the Westinghouse Electric & Manufacturing Company as stated on Securities and Exchange Commission Form 10, 1934, Item 29.

bonus payments were even greater than they are in the group now being analyzed. One reason for this is the fact that most of the plans in the earlier study had been prepared before the depression and had not been revised in the light of subsequent developments. Also certain other plans covered small, closely owned companies, which doubtless led to the inclusion of special provisions in the bonus plan.

Fluctuation in Bonus Payments

Of outstanding significance in this study of incentive payments from 1928 to 1936 is the fluctuation in the number of executives receiving bonuses and the number of companies paying them, which is clearly shown in Exhibit 92. The largest number of executives received bonuses in 1930, when the largest number of companies paid bonuses. The decline in the number of officers receiving such payments was precipitous from 1930 to 1932, when only slightly more than one-third the peak number of officers continued to participate in such payments. Similar figures were not available from 1933 to 1936.

The number of companies paying bonuses declined slightly more than one-third from 1930 to 1932, which was not nearly so great as the decline in the total number of executives receiving bonuses. Of more interest, however, is the fact that the decline in the number of companies continued through 1934 when there were less than half the number of companies paying bonuses than in 1930. The wide spread between those companies having bonus plans and those paying bonuses over the 1931–1936 period is also significant, as indicated in columns 6 and 9 of Exhibit 92. For example, only two-thirds of the companies indicating in one way or another the presence of bonus plans in 1936 made bonus payments during that year. The adoption of bonus plans in 1935 and 1936 in no degree kept pace with increasing earnings; only two companies in the group appear to have adopted such plans in either year.

EXHIBIT 92.—FLUCTUATION IN NUMBER OF EXECUTIVES RECEIVING SALARY WITH BONUS, IN NUMBER OF COMPANIES HAVING BONUS PLANS, AND IN NUMBER OF COMPANIES PAYING BONUSES; 59 LARGE INDUSTRIAL COMPANIES: 1928–1936

Year	Industrial executives[1]				Industrial companies						
	Total No.		No. receiving salary with bonus		Total No.	No. having bonus plans		No. having bonus payment information available	No. paying salary with bonus		
	Actual	Relatives (1929 = 100)	Actual	Relatives (1929 = 100)	Actual	Actual	Relatives (1929 = 100)	Actual	Actual	% of No. having data available	Relatives (1929 = 100)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1928	702†	...	300†	...	57†	44†	...	55	39	71	100
1929	742	100	362	100	59	44	100	58	41	71	100
1930	743	100	380	105	59	45	102	58	42	72	102
1931	754	102	237	65	59	37	84	58	29	50	71
1932	746	101	140	39	59	33	75	58	27	47	66
1933	...	...	*	*	...	*	*	*	*	*	*
1934	...	...	*	*	59	25	57	58	14	24	34
1935	...	...	*	*	59	22	50	56	16	29	40
1936	...	...	*	*	59	24	55	52	16	31	44

* Data not available.

† The figures for 1928 exclude data for two companies.

[1] Information on the total number of executives was not available for the period 1928–1932 for three companies.

Definite conclusions cannot be drawn from these facts, but at least they suggest recognition of many complicating problems in past functioning of such plans, and a hesitation to readopt them without careful study.

Bonus Payments in Relation to Total Executive Compensation: 1928–1932

In any study of executive compensation it is important to know the relationship between bonus payments and total executive compensation, as well as the fluctuation in such payments over a period of years. Exhibit 93 was prepared for this purpose; it extends only from 1928 to 1932 because separate salary and bonus data are not available for the later years. The exhibit is divided into four sections: Section I refers to all 53 companies for which information was available over the period; Section II, to bonus paying companies only; Section III, to companies which paid a bonus in 1929; and Section IV, to companies which paid no bonus in 1929.

In Section I, the median percentage of bonus payments to total executive compensation for all 53 companies reached a high of 20% in 1929, increasing from 14% in 1928 and decreasing to 15% in 1930, and to 0% in 1931 and 1932. These median percentages should be compared with the percentages of aggregate bonus payments to aggregate executive compensation for the 53 companies which show a similar trend, a high of 47% in 1929, increasing from 44% in 1928 and declining to 19% in 1932. The drastic decline in bonus payments is revealed very clearly by these figures. The range of bonus payments as a percentage of total executive compensation was exceedingly wide; in 1929 the spread was from 1% to 97%.

Although Section II, referring to bonus paying companies only, is based on a changing number of companies, here again the drastic decline in bonus payments as contrasted with total compensation is indicated; the median percentage of total compensation paid in bonuses declined by 1932

EXHIBIT 93.—FLUCTUATION IN EXECUTIVE SALARIES, BONUS PAYMENTS, AND TOTAL COMPENSATION FOR 53 LARGE INDUSTRIAL COMPANIES:[1] 1928–1932

Items	Median % and index numbers based on the percentages and relatives computed for individual firms					Average % and relatives computed from aggregate dollar figures for all firms[2]				
	1928 (1)	1929 (2)	1930 (3)	1931 (4)	1932 (5)	1928 (6)	1929 (7)	1930 (8)	1931 (9)	1932 (10)
I										
53 companies:										
Bonus payments: percentage of total compensation[3]	14	20	15	0	0	44	47	42	28	19
Index numbers and relatives; 1929 = 100:										
Total compensation	90	100	100	85	69	89	100	96	78	62
Salaries	98	100	104	101	89	94	100	105	105	94
Bonus payments[3]	..	...	...	...	..	83	100	85	47	25
II										
Companies paying bonuses:[4]										
Bonus payments: percentage of total compensation[5]	35	40	26	23	10					
Index Numbers; 1929 = 100:										
Total compensation	88	100	96	82	62					
Salaries	97	100	104	103	90					
Bonus payments	84	100	96	85	37					
III										
36 companies paying bonuses in 1929:										
Bonus payments: percentage of total compensation	30	40	26	4	2	51	57	52	34	25
Index numbers and relatives; 1929 = 100:										
Total compensation	86	100	95	77	64	87	100	92	76	59
Salaries	98	100	105	104	90	99	100	103	116	104
Bonus payments	80	100	89	14	2	79	100	84	46	25
IV										
17 companies not paying bonuses in 1929:										
Index numbers and relatives; 1929 = 100:										
Total compensation	98	100	102	98	79	94	100	111	87	75

[1] Because of lack of complete compensation data, figures are not included in this exhibit for six companies.

[2] Percentages and relatives based on aggregate dollar figures have been computed only in those cases where the number of figures in the group was constant throughout the period.

[3] In interpreting the percentages in this item, it is to be remembered that the figures are medians. Of the companies included in this group, more than half paid no bonuses in both 1931 and 1932; hence the medians for those years are zero. Index numbers for this item are omitted because relatives could not be computed for those companies which did not pay bonuses in 1929.

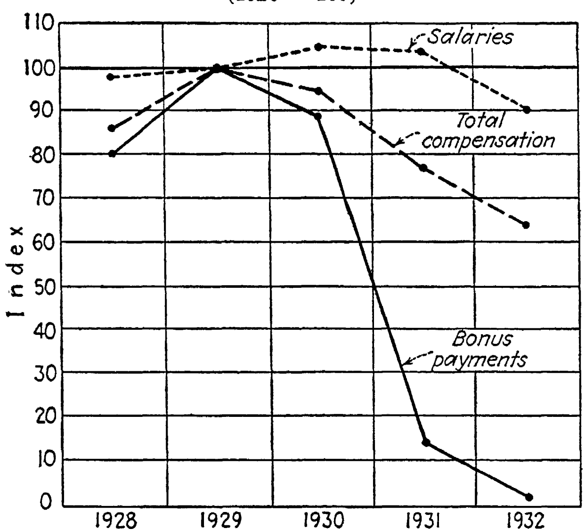
[4] Number of companies varied from year to year as follows: 36 in 1928 and 1929, 37 in 1930, 24 in 1931, 22 in 1932. Because of this, averages and relatives could not be computed.

[5] Bonus payments in each year ranged from 0 % or 1 % to 96 % or 97 % of total compensation.

to about 10%. It is interesting to note that as bonus payments declined in 1930–1931, salary payments increased and remained above 1929 until 1932. This was also true for all 53 companies in Section I.

Section III, for 36 companies paying bonuses in 1929, indicates plainly the fluctuating nature of bonus payments

EXHIBIT 94.—FLUCTUATION IN EXECUTIVE SALARIES, BONUS PAYMENTS, AND TOTAL COMPENSATION FOR 36 LARGE INDUSTRIAL COMPANIES PAYING BONUSES IN 1929: 1928–1932
(1929 = 100)



in this group. The median percentage of total executive compensation paid as a bonus declined from approximately 40% in 1929 to 2% in 1932. Considered in aggregates, the decline was from 57% in 1929 to 25% in 1932. The fluctuation is shown graphically in Exhibit 94.

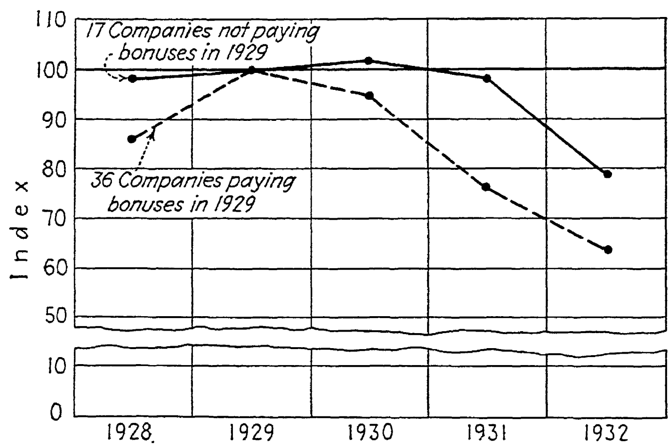
Section IV covers 17 companies that paid no bonuses in 1929. For this group, the relative of aggregate compensation rose 11% in 1930 and then declined by 1932 to 25% below the 1929 level. It is worth noting that for the 1929 bonus paying companies (Section III) the relative of aggregate compensation dropped 8% below the 1929 level

in 1930, and 41% below in 1932. Exhibit 95 compares the fluctuation for these two groups of companies in chart form.

Incentive Compensation Method Contrasted with Salary Method

In examining the various bonus plans in this analysis and the general reading on the subject, one frequently meets arguments favoring such plans. Some of the arguments

EXHIBIT 95.—FLUCTUATION IN EXECUTIVE COMPENSATION OF 53 LARGE INDUSTRIAL COMPANIES CLASSIFIED ACCORDING TO PAYMENT OR NON-PAYMENT OF BONUSES IN 1929: 1928–1932



definitely stated by proponents of these plans may be summarized as follows:

The greatest incentive for the development of any business is a sense of proprietorship. Under present conditions, with the management generally in an entirely separate group from owners, something like a management bonus plan is essential to insure the same drive and direction to an organization as existed in past generations.

A liberal reward for unusual effort and ability on the part of an officer or employee is returned manyfold to the stockholders of a corporation.

A bonus plan attracts and holds men of unusual ability in the corporation that pays additional compensation.

Executives give their entire attention to a corporation paying substantial bonuses.

None of these commonly advanced arguments favoring incentive compensation plans seems to be entirely adequate or frank, and all are open to rather serious criticisms. The last argument, for example, can hardly be accepted seriously. Surely proponents do not wish to imply that they do not believe executives will be loyal and faithful and spend their full time on the job when receiving only what can easily be described as a substantial straight salary. It is doubtful if the disappearance of bonus payments between 1931 and 1935 in any way affected the work or interest of executives, many of whom broke physically under the terrific strain of the period. It is also doubtful whether the largest bonuses ever drove officers to work so hard or created such interest as did the disappearance of earnings and the fear of failure of their companies during the period of the great depression.

The proponents of bonus plans did not advance two arguments for these plans which they might well have used. The first is that a corporation may be compelled to adopt such a plan because of the many similar plans being put into effect by other corporations. Another reason for the adoption of such plans might be that if stockholders receive an adequate return on their investment, there is no reason why the officers should not participate in additional earnings.

After a careful consideration of the plans among the 59 companies and the character of earnings, the theory behind these plans is interesting. Here a query becomes obvious. What is fair executive compensation? Is it not a liberal, average, competitive wage—the market rate—paid over a period of good and bad years? If a salary is relatively low and the executive's total salary depends on

bonus payments, then it must be fair and reasonable that a bonus be paid.

Frequently in discussing methods of executive compensation much time is spent in arguing over the theory of paying an executive a certain fixed cash salary well below the "going rate," then giving him a handsome bonus, paying liberally for the results secured. Many concur with this theory, believing that if executives are willing to run a real risk in what the company earns they also should gain liberally when earnings are particularly large. What happens, however, in actual practice? A careful study of the salaries of corporation presidents in 1929, when conditions were most suitable for this theory to function, contrasted with 1932, brings out several interesting facts. Exhibits 96 and 97 were prepared to illuminate this much discussed point.

Exhibit 96 indicates that on the average the chief executive who received a bonus also was paid a salary within a few thousand dollars as large as a president who was simply paid a fixed cash salary. However, when the bonuses received by this group were added to cash salaries, the median payment to this group averaged about two and one-half times the amount paid to the group receiving simply a formal salary. That is, total compensation to presidents of companies not paying bonuses in 1929 averaged $80,000 as contrasted with $196,000 paid to presidents of companies paying bonuses. Such a study in 1932 for the same companies brings out additional interesting facts. The median salary for officers receiving a salary in both years dropped from $80,000 in 1929 to slightly over $64,000 in 1932. The median total compensation, however, for the group receiving salary and bonus in 1929 dropped from $196,000 to approximately $88,000 in 1932, and a decline occurred in the fixed-salary payments received by the latter group from $75,000 to $66,000. Also 15 of the 55 companies furnishing such information indicated that they paid over $200,000 to at least one executive in

EXHIBIT 96.—DISTRIBUTION OF PRESIDENTS OF 55 LARGE INDUSTRIAL COMPANIES[1] ACCORDING TO AMOUNT OF COMPENSATION: 1929 AND 1932

Amount	1929			1932			1932		
	No. of presidents receiving salary only in 1929[2]	No. of presidents receiving salary with bonus in 1929[3]		No. of presidents receiving salary only in 1929[2]	No. of presidents receiving salary with bonus in 1929[3]		No. of presidents receiving salary only in 1932[3]	No. of presidents receiving salary with bonus in 1932[2]	
	Classified by amount of salary	Classified by amount of salary	Classified by amount of total compensation	Classified by amount of salary	Classified by amount of salary	Classified by amount of total compensation	Classified by amount of salary	Classified by amount of salary	Classified by amount of total compensation
Less than $25,000	1	3	....	2	2	1	3	1	
$25,000 to 50,000	4	4	2	6	5	5	10	1	1
50,000 to 75,000	6	6	2	9	8	6	14	3	1
75,000 to 100,000	6	4	1	4	7	4	8	3	
100,000 to 125,000	6	7	4	3	3	1	3	4	1
125,000 to 150,000	1	2	3	1	....	2	1	....	2
150,000 to 175,000	2	1	1	1	1	3	1	1	2
175,000 to 200,000	....	....	1	1	1	1	1	....	2
200,000 to 225,000	1	....	....	....	....	1	....	....	1
225,000 to 250,000	....	....	1	1	....	1	....	....	1
250,000 to 275,000	....	....	3	....	....	....	1		
275,000 to 300,000	....	....	1						
300,000 to 325,000									
325,000 to 350,000	1								
350,000 to 375,000	....	....	3						
375,000 to 400,000									
400,000 to 425,000	....	....	1						
425,000 to 450,000	....	....	1						
450,000 to 475,000									
475,000 to 500,000									
500,000 or more	....	....	3	....	....	2	....	....	2
Total	28	27	27	28	27	27	42	13	13
Median amount	$80,000	$75,000	$196,000	$64,000	$66,000	$88,000	$63,000	$88,000	$169,000

[1] Owing to lack of adequate information on executive compensation, this exhibit does not include figures for four companies.
[2] One of the companies paying no bonus in 1929 awarded its president a bonus in 1932.
[3] Fifteen firms which paid bonuses in 1929 discontinued such payments by 1932.

1929; in 1932 the number of companies paying over this amount declined to 5.

EXHIBIT 97.—DISTRIBUTION OF PRESIDENTS ACCORDING TO AMOUNT OF COMPENSATION IN 27 LARGE INDUSTRIAL COMPANIES PAYING NO BONUS IN EITHER 1929 OR 1932, AND IN 15 LARGE INDUSTRIAL COMPANIES PAYING A BONUS IN 1929 BUT NOT IN 1932

Amount	1929			1932	
	No. of presidents not receiving bonuses in either 1929 or 1932	No. of presidents receiving bonuses in 1929 but not in 1932		No. of presidents not receiving bonuses in either 1929 or 1932	No. of presidents receiving bonuses in 1929 but not in 1932
	Classified by amount of salary	Classified by amount of salary	Classified by amount of total compensation	Classified by amount of salary	Classified by amount of salary
Less than $25,000	1	2	....	2	1
$25,000 to $50,000	4	3	1	6	4
50,000 to 75,000	6	5	2	9	5
75,000 to 100,000	6	2	1	4	4
100,000 to 125,000	6	3	2	3	
125,000 to 150,000	1	....	1	1	
150,000 to 175,000	1	....	1	1	
175,000 to 200,000	....	....	1	....	1
200,000 to 225,000	1				
225,000 to 250,000	....	....	1		
250,000 to 275,000	....	....	1	1	
275,000 to 300,000					
300,000 to 325,000					
325,000 to 350,000	1				
350,000 to 375,000	....	....	1		
375,000 to 400,000					
400,000 to 425,000	....	....	1		
425,000 to 450,000	....	....	1		
450,000 to 475,000					
475,000 to 500,000					
500,000 or more	....	....	1		
Total	27	15	15	27	15
Median amount	$76,000	$50,000	$161,000	$64,000	$63,000

The third section of Exhibit 96 refers to presidents receiving salary and salary with bonus in 1932 irrespective

of type of payments received in 1929. The number of men in the two groups in 1932 is radically changed from 1929. The average straight salary payment in 1932 was $63,000; the average salary to the 13 men receiving salary and bonus was $88,000, and with bonus added was $169,000.

The distribution of salaries as indicated by Exhibit 96 and the changes which occurred are most significant and are worth careful study. The concentration of salaries in the lower brackets, particularly among the group of presidents receiving straight salaries only, is important.

Exhibit 97 was prepared to throw additional light on this subject by examining 27 companies paying no bonus either in 1929 or 1932, and 15 companies paying a bonus in 1929 but not in 1932. The median payments to those receiving salaries only in both years are, as might be expected, similar to those in the previous exhibit, $76,000 in 1929, and $64,000 in 1932. The median of the salary payments to the group in the 15 companies paying bonuses in 1929 is $50,000, or one-third below the amount paid the straight salary group in 1929. The bonus payments were double the salaries of the men receiving bonuses and made the median total compensation of $161,000 slightly over twice the median amount received by the group on a straight salary basis. Changes in these two groups in 1932 were surprising. The amount for the 27 companies paying straight salaries declined about $12,000. In the 15 companies paying a bonus, however, the salaries rose about $13,000; but the total median payments received in this group declined about $100,000 so that the median payments to presidents in the two groups were almost identical in 1932, $64,000 and $63,000.

From an executive's point of view, these exhibits are particularly enlightening. Officers receiving bonuses may expect a very drastic decline in their earning possibilities between good and bad years. The decline might be so great that an officer who bases his standard of living on bonus payments rather than on salary may find himself in

an embarrassing position when the bonus payments disappear.

Earnings as a Basis for Incentive Compensation Plans

Earnings constitute a basic item in any study of executive bonus plans and for this reason their nature must be understood. They are important, first, because payments to any bonus fund are generally a percentage of earnings; and, second, because theoretically at least the objectives of most of the plans are to stimulate or increase earnings. From the many definitions of earnings used as a basis for computing bonus payments, it appears that the makers of each plan had a different idea as to what constituted this important item. A few of the definitions of earnings used as a basis for computing bonus payments are the following: income after deducting depreciation, interest, and dividends on preferred stock paid or accrued during the year, but before Federal taxes; income after deducting all expenses and losses, such depreciation provisions and the reserve for trade obligations as the board of directors may determine, and preferred stock dividends; income before interest premiums and discount charges, but after provisions for Federal taxes and after reserves set aside for the reasonable requirements of the business; income after all taxes and interest charges, but before any charges for depletion and depreciation; income after all charges and $2 per share on outstanding common stock.

Irrespective of what definition of earnings is used, they remain the great objective of any corporation. How they arise and what really increases them, therefore, become even more important questions, in determining any method of executive compensation, than how they are technically defined in an executive compensation plan. Furthermore, it is important to know whether earnings can be accurately measured from year to year.

The fact is that earnings at times may be highly fortuitous in any corporation, and it becomes difficult even in

instances of able management to segregate that portion of earnings directly resulting from the efforts of executive officers. An example of this is found in the well-managed and profitable General Motors Corporation. Did its compensation plan and able executives entirely bring about the large profits of the corporation in the 1920's, or did the failure of the Ford Motor Company to change its models during that period contribute substantially to General Motors' success? Such questions of course will go unanswered, but it is well to have them in mind in considering earnings and how they are related to bonus payments.

The reasons for large or small corporate earnings are numerous and constantly changing. Besides the reasons which are under immediate management control are the following factors which have a definite influence on earnings: capital, through its investment or use; inventory appreciation in periods of fluctuating prices; cyclical swings in volume of business; changes in return on investments; earnings of subsidiary or independently managed companies; unexpected circumstances or trends in certain industries, as in the textile and chemical industries today. The profits resulting from few of these factors can be attributed directly to the executives, yet few plans have attempted in any way to segregate the items over which management has little control. Occasionally, however, certain plans try to take into consideration one or two of these points as, for example, that of the du Pont company which excludes subsidiary profits and profits on investments in figuring earnings as a basis for its bonus plan.

The practical bearing of these factors on the question of earnings and bonuses is easily recognized from the following example. In 1933, raw material prices rose rapidly; wool in particular rose from 18.1 cents a pound to 36.8 cents a pound. The American Woolen Company, after a decade of deficits and for seven years a total net loss exceeding $23,000,000 suddenly showed profits of more than $7,000,000 in 1933, and paid bonuses to three officers of

more than $600,000 in addition to their combined salaries of $165,000. This caused considerable dissatisfaction among stockholders and led ultimately to the abrogation of the plan.

Although the question of fortuitous profits has been raised, no attempt has been made to answer it. Possibly management should share in these profits as well as the stockholders; however, if this position is taken, what of the uncontrollable losses which frequently occur, as in the case of the inventory losses of the American Woolen Company over a period of years when prices declined steadily?

Furthermore, annual earnings figures, as is generally recognized, even after the best accountants have been consulted and have approved them, merely constitute a laboriously arrived at estimate of the results of annual operations. The United States Steel Corporation recently wrote off many millions of dollars to cover under-depreciation of plants; thus in reality there had been an overstatement of past earnings.[1] Similar capital adjustments or charges to surplus have frequently been made by companies paying large bonuses based on earnings. Earnings, therefore, may be from many angles an unreliable basis for computing such bonus payments.

Executive Compensation as a Percentage of Earnings and Sales in Individual Companies

After discussing the character of earnings, it is important to examine the relation of executive compensation to earnings and sales in the various companies examined. Exhibits 98 and 99 give these percentages for individual companies, grouped according to whether or not they paid a bonus in 1929, together with medians for the years 1929, 1936, and the entire period 1928–1936. The wide range in percentages for 1929, 1936, and for the entire period sug-

[1] Hosmer, W. A., "The Effect of Direct Charges to Surplus on the Measurement of Income," *Business and Modern Society*, Cambridge, Harvard University Press, 1938, p. 113.

gests the wide fluctuation in earnings and the need for careful consideration of this item as a basis for paying executives.

Among the companies that paid bonuses in 1929, the range of percentages of executive compensation to earnings extended in 1929 from 0.5% for the United States Steel Corporation to 16.6% for the United States Rubber Company. The corresponding range for the 1928–1936 period was still wider, extending from 1.5% for the Standard Oil Company (New Jersey) to a fantastic percentage for the United States Rubber Company. For the same companies in 1936 the range (irrespective of whether or not they had bonus plans) was from 0.6% for the Standard Oil Company (New Jersey) to 20.5% for the American Locomotive Company.

Non-bonus paying companies showed a narrower range in the percentage of executive compensation to earnings. In 1929 the range was from 0.5% for the Kennecott Copper Corporation to 7.7% for the National Lead Company. For the 1928–1936 period the range was from 0.8% for the R. J. Reynolds Tobacco Company to 10.7% for the Continental Oil Company.[1] In 1936 the same range for the same group of companies was from 1.0% for the R. J. Reynolds Tobacco Company to 9.2% for the American Woolen Company.

As pointed out previously, such statistical studies as those in Exhibits 98 and 99 are not final or decisive in their evidence, but rather, suggestive and indicative. A similar study was made, however, of the percentages of executive compensation to earnings and sales based on the same companies grouped according to those paying bonuses and those not paying bonuses in 1936. Of the 57 companies having compensation data available, 39 companies were classed as bonus paying in 1929 and 18 as non-bonus paying. In 1936, the number of companies paying bonuses declined

[1] One company sustained a loss in 1929 and for the period combined; consequently percentages could not be computed in these two instances.

EXHIBIT 98.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS AND SALES FOR EACH OF 39 LARGE INDUSTRIAL COMPANIES PAYING A BONUS IN 1929: 1929, 1936, AND 1928–1936 COMBINED[1]

Company[2]	Executive compensation[3]					
	% of earnings[4]			% of sales[5]		
	1929[6] (1)	1936 (2)	1928–1936 combined (3)	1929 (4)	1936 (5)	1928–1936 combined (6)
American Locomotive Company......	6.6	20.5	41.9	*	*	*
American Rolling Mill Company (The)[7]	5.0	5.9	8.7	0.6	0.5	0.6
American Smelting and Refining Co.[7]	2.7	3.1	4.4	*	*	*
American Sugar Refining Co. (The)...	4.2	6.1	5.1	(0.3)	*	*
American Tobacco Company (The)[7]...	6.1	5.1	5.8	*	*	*
Bethlehem Steel Corporation.........	6.9	4.6	8.7	1.2	0.3	0.8
Borden Company (The)[8,9]...........	4.3	6.3	6.0	0.3	0.2	0.3
Corn Products Refining Company[7]....	6.0	4.8	6.6	*	*	*
Crucible Steel Company of America[10]..	(5.8)	*	(12.8)†	*	*	*
E. I. du Pont de Nemours & Company[7]	2.1	*	2.3‡	*	*	*
Eastman Kodak Company[7]..........	2.1	3.3	3.2	*	(0.5)	*
General Electric Company[7,10]........	(3.0)	*	(3.0)†	(0.5)	*	(0.5)†
Goodyear Tire & Rubber Co. (The)...	1.5	2.2	2.7	0.1	0.2	0.2
Inland Steel Company..............	3.2	4.2	4.8	0.6	0.6	0.8
International Harvester Company[11]...	5.3	1.7	5.1	*	(0.2)	*
International Shoe Company.........	1.9	3.4	2.6§	0.2	0.4	0.3§
Jones & Laughlin Steel Corporation...	6.3	7.6	14.9	1.1‖	0.5	1.0
S. S. Kresge Company[7].............	6.2	5.2	5.7	0.6	0.4	0.5
Liggett & Myers Tobacco Company[7]..	5.3	2.7	3.9§	*	*	*
Loew's Incorporated[7,9,10]............	(5.2)	*	(5.6)†	(0.8)	*	(0.8)†
R. H. Macy & Co., Inc.[7]............	4.7	7.6	6.9	0.3	0.3	0.4
Marshall Field & Company..........	1.3	7.9	7.9	0.1	0.3	0.2
Montgomery Ward & Co., Inc.[7]......	6.2	2.2	6.8	0.3	0.1	0.2
National Dairy Products Corporation	3.0	6.2	4.1	0.2	0.3	0.3
Phelps Dodge Corporation...........	3.6	2.7	7.0	0.9	0.5	0.7
Pittsburgh Coal Company...........	9.0	¶	35.2	0.4	0.4	0.4
Procter & Gamble Company[8,10].......	(3.9)	*	(3.2)†	(0.5)	*	(0.4)†
Pure Oil Company.................	6.2	2.8	4.7	0.7	0.3	0.4
Radio Corporation of America........	3.8	3.7	4.4	0.4	0.2	0.3
Sears, Roebuck and Co.............	2.5	*	5.5†	0.2	*	0.3†
Shell Union Oil Corporation..........	1.2	1.0	2.9	*	(0.1)	(0.1)§
Standard Oil Company (New Jersey)	1.4	0.6	1.5	0.1	0.1	0.1
Texas Corporation (The)............	1.3	1.2	2.0	*	(0.2)	*
Tide Water Associated Oil Company..	2.6	3.8	3.1	0.3	0.4	0.3
United States Rubber Company[7].....	16.6	2.7	**	0.3	0.2	0.3
United States Steel Corporation......	0.5	1.5	1.6	0.1	0.1	0.1
Warner Bros. Pictures, Inc..........	5.5	8.7	14.8§	3.2	2.2	2.8§
Westinghouse Electric & Manufacturing Company[7]..................	2.8	*	7.1	0.4	*	0.5
F. W. Woolworth Co.[7,12]............	7.4	*	6.6†	0.9	*	0.8†
Median for companies paying a bonus in 1929.........................	4.2	4.0††	5.5	0.4	0.3††	0.4
Median for companies paying a bonus in 1936[13]......................	5.2	4.0††	6.7	0.4	0.4††	0.5

For references see next page.

References for EXHIBIT 98.

* Data not available.

† Average for first five years.

‡ Six-year average.

§ Seven-year average.

|| This percentage for Jones & Laughlin Steel Corporation varies by 0.1 % from the similar figure shown in Exhibit 64, p. 143, because of a change in interpretation of the executive compensation data.

¶ A deficit was sustained by Pittsburgh Coal Company in 1936. The executive compensation figures for this firm have been considered in preparing the median.

** This firm sustained a deficit after executive compensation and interest, but showed a small profit before the deduction of these items. Consequently the percentage of executive compensation to earnings is fantastically large and is not presented here.

†† In preparing this median an estimate was included for Westinghouse Electric & Manufacturing Company.

[1] Data for 1933 have been omitted.

[2] Information on payments to executives was not available from the Federal Trade Commission or the Securities and Exchange Commission for either Chrysler Corporation or General Motors Corporation. Other sources, however, indicate that General Motors Corporation paid a bonus in 1929 and that Chrysler Corporation may have paid one also. Of the 39 companies listed, all paid cash bonuses to executives in 1929 except The Goodyear Tire & Rubber Company, which made additional payments in stock. Certain firms paid both stock and cash bonuses.

[3] Figures for 1928 through 1932 are based on data furnished by individual companies to the Federal Trade Commission while those for 1934, 1935, and 1936 are based on figures reported to the Securities and Exchange Commission. In some instances it appeared desirable to adjust the figures for 1934–1936 in order to make them more nearly comparable with those available for the earlier years. In a few other cases it was necessary to apply the reverse procedure. Several of the compensation figures, therefore, are estimates.

[4] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[5] Figures for only those 35 firms having complete annual sales data were considered in arriving at the several medians in Exhibits 98 and 99 for executive compensation as a percentage of sales. Figures for individual years not used have been enclosed in parentheses.

[6] Sixteen of the 39 large companies considered in this exhibit are also included among the 100 industrial companies reviewed in Chaps. II and III. In the case of 5 of these companies, the earnings figures used in calculating the percentages in column 1 vary somewhat from those used in the earlier study covered by Chap. III. These variations, negligible in all but one instance, are due either to differences in the sources used or in interpretation of the published statements. In the case of United States Rubber Company, however, the variation is substantial; certain extraordinary charges not considered in arriving at the figures presented in Exhibit 11, pp. 30–31, have been treated as expense in arriving at the earnings figure used in this exhibit.

[7] Apparently this firm also paid some bonus to executives in 1936.

[8] It is doubtful whether or not this firm paid any bonus to executives in 1936.

[9] Estimates for interest have been included in the earnings figures for this company.

[10] No figures for this firm have been considered in arriving at the medians. The data thus excluded have been enclosed in parentheses.

[11] The 1936 figures for the International Harvester Company cover a 10-month period.

[12] Earnings figures for F. W. Woolworth Co. include dividends from foreign subsidiaries.

[13] Sixteen companies paid a bonus to executives in 1936. Of these, one firm, Continental Oil Company, did not pay a bonus in 1929. Data for 12 of the companies were used in arriving at the medians for executive compensation as a percentage of earnings, while data for but seven could be used in preparing the median figures for executive compensation as a percentage of sales.

EXHIBIT 99.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS AND SALES FOR EACH OF 18 LARGE INDUSTRIAL COMPANIES NOT PAYING A BONUS IN 1929: 1929, 1936, AND 1928–1936 COMBINED[1]

Company	Executive compensation[2]					
	% of earnings[3]			% of sales[4]		
	1929[5] (1)	1936 (2)	1928–1936 combined (3)	1929 (4)	1936 (5)	1928–1936 combined (6)
American Radiator & Standard Sanitary Corporation	1.7	3.8	4.9§	0.3	0.3	0.3§
American Woolen Company[6]	.....	(9.2)	....	*	(0.3)	*
Anaconda Copper Mining Company	1.2	2.3	3.4	0.3	0.3	0.5
Atlantic Refining Company (The)	1.9	5.0	4.5	0.2	0.4	0.3
Consolidated Oil Corporation	2.2	4.8	5.9	0.3	0.4	0.4
Continental Oil Company[7]	4.4	2.7	10.7	0.6	0.4	0.5
Firestone Tire & Rubber Co. (The)	4.0	3.5	4.6§	0.3	0.3	0.3§
B. F. Goodrich Company (The)[6]	(3.0)	*	(29.5)†	(0.2)	*	(0.3)†
Kennecott Copper Corporation	0.5	1.6	1.6	0.2	0.4	0.4
National Lead Company[8]	7.7	5.7	8.4	*	(0.6)	*
Ohio Oil Company	1.4	2.2	3.3	0.2	0.3	0.3
Phillips Petroleum Company	1.5	*	3.0§	0.5	*	0.4§
R. J. Reynolds Tobacco Company	0.6	1.0	0.8	*	*	*
Standard Oil Company of California	1.3	2.6	2.2	*	(0.4)	*
Union Carbide and Carbon Corp.[6]	(1.4)	*	(1.8)†	*	*	*
United Fruit Company	2.7	2.3	3.1	*	*	*
Wheeling Steel Corporation	1.6	4.8	4.6§	0.2	0.4	0.3§
Youngstown Sheet and Tube Co. (The)	1.6	2.3	5.8	0.3‖	0.3	0.5
Median for companies not paying a bonus in 1929	1.6	2.6¶	4.5	0.3	0.3¶	0.4
Median for companies not paying a bonus in 1936[9]	2.1	3.5¶	4.6	0.3	0.3¶	0.3

* Data not available.

† Average for first five years.

§ Seven-year average.

‖ This percentage for Youngstown Sheet and Tube Company varies by 0.1% from the similar figure shown in Exhibit 64, p. 143, because of a change in interpretation of the executive compensation data.

¶ In preparing this median figure an estimate was included for Phillips Petroleum Company.

[1] Data for 1933 have been omitted.

[2] Figures for 1928 through 1932 are based on data furnished by individual companies to the Federal Trade Commission while those for 1934, 1935, and 1936 are based on figures reported to the Securities and Exchange Commission. In some instances it appeared desirable to adjust the figures for 1934–1936 in order to make them more nearly comparable with those available for the earlier years. In a few other cases it was necessary to apply the reverse procedure. Several of the compensation figures, therefore, are estimates.

[3] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[4] Figures for only those 35 firms having complete annual sales data were considered in arriving at the several medians in Exhibits 98 and 99 for executive compensation as a percentage of sales. Figures for individual years not used have been enclosed in parentheses.

[5] Seven of the 18 large companies considered in this exhibit are also included among the 100 industrial companies reviewed in Chaps. II and III. In the case of two of these companies, the earnings figures used in calculating the percentages in columns 1 and 3 vary somewhat from those used in the earlier study covered by Chap. III. These variations, which were not substantial, are due to differences either in the sources used or in interpretation of the published statements.

[6] No figures for this firm have been considered in arriving at the medians. The data thus excluded have been enclosed in parentheses.

[7] Apparently this company paid some bonus to executives in 1936.

[8] One director of National Lead Company received a bonus from a subsidiary company through his office as president of that subsidiary. However, for purposes of this study, National Lead Company has been considered non-bonus paying.

[9] Data for 34 of the 39 companies not paying a bonus in 1936 were used in arriving at the medians for executive compensation as a percentage of earnings, while data for but 25 could be used in preparing the median figures for executive compensation as a percentage of sales.

to 16 whereas the number paying salary only rose to 39. Two companies in 1936 could not definitely be classed as either bonus or non-bonus paying. Since all but one of the companies paying bonuses in 1936 also made such payments in 1929, and since the same periods were used in determining percentages of earnings and of sales, a comparison could be made of the results with the medians in Exhibits 98 and 99. This comparison indicated the same percentage relationship for bonus and non-bonus paying companies. The medians for both studies, which are given in the two exhibits, show that companies paying bonuses distributed a substantially larger share of earnings to executives than those not paying bonuses. This occurred not only in one period but for the three periods studied. The differences in medians as well as the variation in ranges of percentages are wide enough to be significant even though the statistical yardstick is rough. This was also true of the median percentages of executive compensation to sales.

Corporation Votes Controlled by Management[1]

In the entire 1928–1936 period at least 43 out of the 59 companies examined used some form of employee stock-purchase or option plan which attempted to increase managements' ownership of shares. An analysis of the

[1] The figures used in this study to represent votes controlled by management include: stock owned of record, stock beneficially owned, stock held by another company in which the executives of the registrant have voting control, and that held as trustee. Where the officer or director is a co-trustee he is credited with a *pro rata* share of the amount held by the trust.

It should be noted that the figures represent *votes controlled* by management rather than stock owned by management. Where a particular class of stock has more than one vote, the control by management is based upon the ratio of the total number of votes held to total votes outstanding. Furthermore, preferred stock has been included where it has a vote upon default of dividends, if such default has occurred, and where it has a vote according to the preferred stock provisions.

The figures in Exhibit 100 were carefully compiled but at best are only good estimates because of the vague data available for study. Information concerning votes controlled by management was requested by the Securities and Exchange Commission for the year 1934 only.

percentage of corporate votes controlled by management, to discover how effective these plans may have been in giving management a substantial voting interest, as shown in Exhibit 100, reveals that management ordinarily owns or controls only a small percentage of corporate votes. The median for the entire group of companies was 3.7% and the range was from 0.2% to 43.1%. Furthermore, it should be remembered that these percentages of votes refer to *total* management holdings. As individual holdings in most companies are only a fraction of the total, the influence of stock ownership by management would necessarily be much below the average.

EXHIBIT 100.—DISTRIBUTION OF 58 LARGE INDUSTRIAL COMPANIES ACCORDING TO PERCENTAGE OF VOTES CONTROLLED BY MANAGEMENT:[1] 1934

	No. of companies[2]
Less than 1%	15
1 to 2	8
2 to 3	3
3 to 4	6
4 to 5	4
5 to 6	1
6 to 7	5
7 to 8	3
8 to 9	2
9 to 10	0
10 or more	11
Median percentage	3.7%
Range of percentages	0.2 to 43.1

[1] See footnote 1, p. 233.
[2] Information for one company was not available.

Exhibit 100 shows the classification of the companies studied according to the percentage of votes controlled by management. Since the management of 36 of the 59 companies owns less than 5% of the corporate votes, it appears doubtful whether it is possible by means of reasonable stock purchase or option plans to instill readily in management a proprietorship interest, and whether such plans are of much assistance from the voting control

point of view in solving executive compensation problems. Management typically does not receive its income from stock ownership and ordinarily exerts what control it has because of its strategic position. In only 11 of the companies studied did management control over 10% of corporate votes. Moreover, any attempt to change this condition by giving large blocks of voting stock to management would probably meet with public disapproval and also result in difficult tax problems for individuals.

Conclusion

Certain general conclusions based on an analysis of the incentive compensation plans of the companies in this study appear fairly well established. By 1929 and 1930, about two-thirds of the corporations listed on the New York Stock Exchange had bonus plans or paid bonuses. Formal bonus plans presented many problems. A substantial number were discontinued between 1930 and 1935, and only a few companies have adopted new or revised plans. The use of the fixed-salary method of paying executives greatly increased from 1930 to 1936.

There have been substantial changes in the type and character of the plans recently adopted as compared to those in the 1920's. The outstanding trends are: (*a*) full publicity about plans and their functioning, (*b*) definite limitations on the amounts which may be paid, and (*c*) bonus payments contingent on payments to stockholders.

Examination indicates the need of careful study of plans before their adoption. Unexpected or unanticipated developments quickly lead to dissatisfaction among both officers and stockholders.

Executive bonus payments are seldom made unless all classes of stockholders are receiving dividends. In 1929 only 3 out of 39, and in 1936 only 1 out of 16 bonus paying companies failed to pay dividends on all classes of stock.

Bonus paying companies in past years paid a larger share of earnings to executives than did non-bonus paying com-

panies. There is no evidence that the use of bonus plans lowered the regular cash salaries paid executives. Instead there is definite evidence that companies paying bonuses paid larger total compensation to their officers than did non-bonus paying companies.

The use of "bonus funds" from which bonuses are paid to executives has been widely adopted. Bonus payments to these funds are based on earnings, frequently after certain amounts are earned or paid to stockholders.

Finally, there is some question whether true executive work is of such character as can be greatly affected by bonus payments. Special compensation for outstanding inventions, improvements in methods, development of new processes, and special success in distribution may easily be justified. This, however, does not necessarily refer to regular executive work and may seldom apply to the top officers of a corporation. Executives are customarily paid for exercising good judgment, formulating broad policies, and making other immeasurable contributions. In periods of little or no earnings, executives may be making their greatest contributions to corporate success and in such periods bonuses are not typical.

CHAPTER X

INTERPRETATIONS AND CONCLUSIONS

The preceding chapters have been devoted wholly to the task of revealing facts—actual practices and policies of individual corporations in paying executives, as well as aggregate figures for such payments. These facts and figures are now available for interpretation, and in this final chapter the author gives certain of his own opinions and conclusions drawn from a study of the data. This is a different undertaking, therefore, from that of the main part of the book. Many readers may disagree with the opinions expressed, but it should be remembered in judging them that the interpretations are tentative and suggestive rather than final.

How Much Are Executives Paid?

One of the questions most frequently asked, both prior to and since the revelation of salary data by the two commissions, is: How much are executives paid? Even after some years of wide publicity on corporate salaries, this question is still important because of the variations in payments and the uncertainty as to the proper yardstick to use in measuring them. In studying the question, the author related executive payments to earnings and to sales. In addition, dollar payments to individuals were compared without reference to corporate earnings or sales.

Only a small fractional part of corporate earnings was ordinarily disbursed to executives. This amount, however, varied greatly among industries, and among individual companies from year to year. A brief partial summary of such payments appears in Exhibit 101. The size of a corporation as measured by assets definitely affected these

EXHIBIT 101.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS[1] IN INDUSTRIAL, RETAIL, AND STEEL COMPANIES: 1929, 1936, AND 1928–1936 COMBINED

Companies classified by type[2]	Median assets end of fiscal year 1929 (unit = $1,000,000)	Executive compensation, % of earnings					
		1929		1936		1928–1936 combined	
		Median	Range[3]	Median	Range[3]	Median	Range[3]
100 industrial companies	$ 33	6.6	0.5–122.5	....	....	†	
38 retail companies	23	7.7	1.3– 33.5	11.9	2.1–114.7	11.7‡	2.3–260.0
24 steel companies	52	5.8	0.5– 23.0	6.4	1.5– 28.7	8.9§	1.5–110.8
51 large industrial companies	178	2.9	0.5– 16.6	3.5	0.6– 20.5	4.9§	0.8– 41.9

† The median for this group of companies for the five-year period 1928–1932 is 10.8 %.

‡ Estimates for executive compensation for 1933 have been included; consequently this figure reflects executive payments in comparison to earnings for the entire nine years.

§ Executive compensation and earnings figures for 1933 have been excluded because of lack of data.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] For detailed information regarding the medians, reference should be made to the original exhibits:

100 industrial companies .... Exhibits 11 and 13, pp. 30–31 and 35.
38 retail companies .... Exhibits 35, pp. 72–73; 36, p. 76; and 38, pp. 84–85.
24 steel companies .... Exhibits 62 and 66, pp. 140 and 147.
51 large industrial companies .... Exhibits 71, pp. 160–161; 77, pp. 168–169; 80, pp. 174–175; and 81, p. 178.

[3] In presenting these figures for extreme range, consideration has not been given to the figures of those companies which sustained deficits.

percentage payments to executives. Large companies generally paid higher total dollar compensation, irrespective of earnings, than small companies. In relation to earnings, however, small companies usually paid a higher percentage to executives than large companies.

It should be noted that Exhibit 101 shows not only median percentages, but also the ranges in such payments, indicating fantastic variations. Of course one cause for such variation is earnings, which cannot be entirely controlled by executives. Nevertheless, since earnings is to a large extent the objective of executives, and since all executives face similar problems in varying intensity, this relationship among companies is a significant one which may become of increasing importance in the minds of stockholders and directors.

Sales volume, a measure of corporate size, is also frequently an indication of results. Particular care, therefore, was taken to relate executive compensation to sales in the various analyses. It was clearly indicated that companies with high sales volume paid a smaller percentage to executives than did companies with low sales volume.[1] In periods of depressed sales volume, the percentage of executive compensation to sales generally rose, indicating a smaller relative decline in executive compensation than in sales. Exhibit 102 indicates the fluctuation of such percentages among department stores, steel companies, and a group of 100 industrial companies, classified according to size, over the period studied.

There is little evidence in these figures that an extreme burden is, on the average, being borne by the consumer's dollar. It is obvious, however, from an examination of the range in these percentages among individual companies, as indicated in Exhibit 64 (page 143) for steel companies, in Exhibit 38 (pages 84–85) for retail companies, and in Exhibit 80 (pages 174–175) for large industrial companies, that cer-

[1] The only exceptions to this appeared in the department store group for certain years.

tain firms were paying far more than the average percentage of sales to executives, which would suggest that too large an amount was being used in this way. This substantiates the findings in Exhibit 101.

The above paragraphs refer to total corporate payments to executives. This naturally is not complete without

EXHIBIT 102.—EXECUTIVE COMPENSATION AS A PERCENTAGE OF SALES IN DEPARTMENT STORES, STEEL COMPANIES, AND INDUSTRIAL COMPANIES[1] CLASSIFIED ACCORDING TO SIZE: 1928–1936
(Median figures)

Year	Department stores reporting to the Harvard Bureau of Business Research		Companies reporting to the Federal Trade Commission and Securities and Exchange Commission			
			Steel companies		Industrial companies	
	1929 sales volume $10,000,000 to $20,000,000, %	1929 sales volume $20,000,000 or over, %	1929 assets less than $90,000,000, %	1929 assets $90,000,000 or more, %	1929 assets less than $27,517,000, %	1929 assets $27,517,000 or more, %
1928	*	*	0.9	0.5	0.9	0.5
1929	0.9	0.7	0.9	0.6	0.9	0.6
1930	0.8	0.8	1.3	0.8	1.1	0.6
1931	1.0	0.8	1.8	0.9	1.3	0.6
1932	0.9	1.1	2.1	1.0	1.3	1.0
1933	1.0	1.0	*	*	*	*
1934	0.8	0.8	1.1	0.6	1.1	0.6
1935	0.9	0.8	0.9	0.4	1.2	0.5
1936	0.6	0.8	0.8	0.4	1.0	0.4

* Data not available.

[1] For detailed information regarding the medians, reference should be made to the original exhibits: department stores and industrial companies, Exhibit 25, p. 51; steel companies, Exhibits 63 and 64, pp. 141 and 143.

some recognition of specific amounts paid to individuals. Here again there appears a definite pattern for so-called large as contrasted with small companies. Those companies with large assets paid, almost as a rule, definitely higher formal salaries than those with small assets.

Today payments to individual executives are of even more importance from a public relations point of view than

total percentage payments. Because of strained relations between business and government and business and labor, much attention should be given to these individual payments. Here again, average payments are not startling, but high extremes are, and these are discussed publicly and remembered. At the present time, following the recent wholesale revelation of salary data, much public criticism has arisen over the payments of large salaries and bonuses irrespective of merit. The significance of this can hardly be overemphasized. Furthermore, the payment of large salaries and bonuses to officers of companies discharging thousands of employees furnishes fuel for the flames of labor unrest. The fact that such payments are the exception rather than the rule detracts little from their damage. The payment of salaries and bonuses totaling hundreds of thousands of dollars to executives, even by a few companies, is full of serious consequences.

There is little in the averages of total dollar payments to individuals that reflects reprehensible practices and policies, although there are certain men receiving compensation so high as to attract great attention. How many men receive outstanding amounts, as contrasted with the total number of executives? It is interesting to summarize this question here for the group of 100 industrial companies referred to in Chapters II and III. Although at least 32% of these companies paid one or more executives over $100,000 in total compensation in 1929, only 9% of the total number of executives, or 80 out of 996 men, received such an amount; and in 1932, about 15% of the companies paid one or more executives $100,000 or over, while only 2% of the total number of executives, 20 out of 986 men, received such an amount. Exhibit 8 (page 24) shows very clearly the distribution of salaries to executives in 1929 and 1932. In 1936 there were not nearly so many large salaries going to executives as there were in 1929.

Although a number of executives did receive and may still receive compensation of $100,000 or over, it is inter-

esting to see how much of it they really keep for personal use. National and state taxes take their share in a surprising manner. Many executives receiving such salaries pay taxes in New York State in addition to their Federal taxes. Even a glance at the following computations for executives in New York State, based on the assumption of no other income, indicates the amazing significance of these tax payments to individuals classified in the $100,000 and $200,000 salary brackets in 1936.

Salary		$100,000		$200,000
Federal tax	$32,469		$95,344	
New York State tax	6,575		13,575	
Emergency New York State tax	975	40,019	1,975	110,894
Net salary		$59,981†		$89,106†

† The figures include $2,500 deduction for married persons.

How Did Executive Compensation Fluctuate?

In periods of declining business when wages are being reduced and workers discharged, it frequently is assumed that executives continue to receive their usual compensation. That such assumptions are unwarranted has been very effectively revealed by the various foregoing studies. Substantial declines occurred in total executive payments as the depression deepened. The drastic decline in bonus payments, which almost disappeared and which had been very prevalent throughout industry, accounted for a large part of the decline in total compensation. In certain companies reductions in total executive compensation followed rather closely declining earnings and sales. Salary payments, however, excluding bonus payments, fluctuated much less. Therefore, it generally occurred that a larger percentage of sales and earnings were paid to executives in periods of depression than in periods of good business, both because of fluctuation in sales and earnings and because of the semifixed nature of salary payments. Compensation among steel companies is a striking example;

in 1929, 0.8% (median) of sales went to executives, and in 1932 this percentage rose to 1.2.

Corporate policies affecting payments to executives also were changed drastically by many companies over the 1928–1936 period.[1] For example, certain companies which followed the practice of paying relatively low salaries from 1928 to 1933 doubled or almost doubled such payments after 1934. On the other hand, companies which paid abnormally high salaries from 1928 to 1931 reduced payments by as much as one-half and continued such reductions even through 1936.

How Did Executive Payments Differ Among Companies and Among Industries?

In the past little has been known about the differences in payments to the chief executives in various companies and industries. That wide variations did occur is clearly brought out by the foregoing exhibits and analyses. The reasons for the extreme range, however, are another problem. What the specific causes are for great differences in percentage payments to executives between comparable companies in the same industry can be answered only by an intimate study of such companies. General reasons, however, are numerous; the lack of knowledge on the part of directors of the "going rate" for executives and the fluctuation in earnings doubtless are two of the principal explanations. Another is the lack of attention given to these problems by directors. Furthermore, certain aggressive executives who are experienced negotiators probably secure higher payments than others. The financial condition of a company, as well as its traditions in paying officers, have definite influence on executive payments. Doubtless there is a "style" factor as well as pride involved in the practices of paying executives.

There is a wide spread in formal salary payments to executives, irrespective of any relationship to corporate

[1] See Appendix B, p. 260.

sales and earnings. An examination of the payments to the executives of the two large steel corporations shows the great differences which existed in that industry in past years. A comparison of payments to chain store and department store executives indicates the range in the retail area, which might be expected to have great similarity in policies. Exhibit 103 shows the median dollar compensation of the three highest paid executives in steel, retail, and a group of large industrial companies.

EXHIBIT 103.—TYPICAL DOLLAR COMPENSATION OF THE THREE HIGHEST PAID EXECUTIVES IN 24 STEEL, 38 RETAIL, AND 44 LARGE INDUSTRIAL COMPANIES: 1936[1]

Ranking of executives in individual companies	24 steel companies		38 retail companies		44 large industrial companies	
	Amount (median)	% of median compensation of highest paid executive	Amount (median)	% of median compensation of highest paid executive	Amount (median)	% of median compensation of highest paid executive
Highest paid executive........	$63,000	100	$60,000	100	$93,000	100
Second highest paid executive..	50,000	80	35,000	58	64,000	69
Third highest paid executive...	36,000	58	33,000	55	50,000	54

[1] For detailed information regarding the medians, see original exhibits: 24 steel companies, Exhibit 69, p. 152; 38 retail companies, Exhibit 44, p. 97; 44 large industrial companies, Exhibit 84, p. 181.

One conclusion on this point emerges from the various studies: the range in such payments has in recent years become much narrower. Publicity may have had something to do with this. It still remains true, however, from a public point of view, that, irrespective of earnings, responsibilities involved, or success achieved, the spread in such payments, particularly on the "high" side, is too wide. Although salaries and bonuses amounting to hundreds of thousands of dollars are paid by certain companies, they are not characteristic of American industry, and are apparently disapproved of by theorists and the public, as well as

by business men. Directors and officers can ill afford to overlook this condition.

What Is the Best Method of Paying Executives?

The proper payment of executives has been and remains highly important to corporate well-being. Directors dare not operate on the presumption that good fortune will supply the place of merit and application among executive officers.

An answer to the question of what constitutes the best method of paying executives is therefore to be sought. It is by no means simple, nor is it obtained readily. The most common methods used over the period studied were: salary, bonus, salary with bonus, salary with stock rights or options, and salary with bonus and stock rights. There were many variations of these plans, some of which were highly involved because of special features. There is little definite evidence, however, that any one method is the best or will be universally used. Plans doubtless should be adapted to meet company and industrial needs. No reason apparently exists why the United States Steel Corporation, for example, should use the same methods as a newcomer in the steel industry, or why an automobile company and a public utility company should follow identical methods. Satisfactory solutions in any area will not be "ready-made" ones; rather, they will be "made to order." Certain of the formal bonus plans, widely heralded some years ago as the answer to these problems, were not satisfactory and in fact precipitated many difficult problems. Complications little anticipated arose from such unrelated sources as an unexpected growth in earnings, payment of bonuses without payment of dividends, inventory price appreciation which increased earnings, and technical provisions, affecting both the men and the amounts paid, which worked out in unexpected ways.

During and following the 1930 business depression, the formal salary method was the one used by the majority

of the large industrial companies studied. As earnings decreased after 1929, interest in bonus plans disappeared, but as earnings increased after 1934 and 1935, attention to bonus payments as an addition to formal salaries also increased.

It should be recognized that the characteristics of acceptable methods of paying executives, rather than specific plans themselves, are emerging. Certain of the characteristics, more clearly defined than the methods, are as follows.

Executive compensation must be, in the broadest sense, socially acceptable, *i.e.*, payments should not be so spectacular as to create universal discussion and disapproval. The basis of payment must be revealed and understood, both by the stockholders and by the public. No plan should be adopted and forgotten; it must be carefully prepared and constantly reviewed if it is not to contain the beginnings of serious corporate trouble. Also any satisfactory plan must be flexible. In past years directors and executives often said, "We would rather fire a man than reduce his salary." Like other shibboleths of the 1920's, the depression proved that this sentiment had little merit. Salaries were reduced in times of stress without disastrous corporate effects. Executive compensation should be readily adjustable, even though adjustment may be difficult. The methods used and payments made should be reasonable and have some relationship to practices in the industry, results achieved by the individual, the size of the company, and the payments to stockholders. What the accepted methods may be in the future is more a question of prophecy even than opinion. There is no one specific answer to the question of what is the best method of paying executives.

Should a Bonus Plan Be Adopted?

With the increase in corporate earnings, the problem again arose in 1936 as to whether or not bonus plans should be adopted for executives. In the years just previous to

the depression the answer given to this question by at least two-thirds of the listed corporations appeared to be in the affirmative. Three frequently stated reasons for the adoption of such plans were: an incentive to greater efficiency, an aid in retaining executives, and a simple way of adjusting executive payments to earnings. One contributing and important factor seldom referred to was that an active group of officers frequently urged directors to adopt such plans. In the past many bonus plans were adopted without detailed study. Recently an article in *The Management Review* recommended bonus plans and included a "general recipe" for one.[1] Unfortunately the problem is not so simple as it may appear at first glance, particularly in the light of present-day corporate publicity. Even befort abuses and mistakes were easily discovered, as they are so present, there were considerable criticism and litigation over the operation of these plans. In recent years many plans have been drastically changed, so much so that only relatively modest amounts are being paid to executives in most companies. Numerous companies, as for example the United States Steel Corporation, have abrogated old plans entirely. Opinions as to the group to receive bonus payments also have changed. Chairmen of the board almost always, and presidents frequently, exclude themselves from such plans because of their influence directly or indirectly on the distribution of bonus payments.

Stockholders, it should be remembered, not only are interested in bonus plans and demanding information about them, but also are insisting that before bonus payments are made dividends be paid on all classes of stock. Courts also are definitely examining bonus plans critically from the stockholders' point of view.

Before the adoption of any plan, directors must first answer such questions as: Is the adoption of such a plan wise from the point of view of the company's organization, its stockholders, its executives, and the public? Without

[1] *The Management Review*, September, 1936, p. 283.

forgetting the advantages of bonus plans or subtly condemning them, the student must concede that such plans, with the best of intentions, have in the past occasionally disrupted organizations, incensed stockholders, alienated public opinion, and led to serious legal disputes.

It should be noted that none of the protagonists of bonus plans imply that such plans take the place of good management. Indeed it has been occasionally stated that ordinary or poor management may be harmed rather than helped by bonus plans. Such plans always require careful supervision by management.

A critical examination of the functions of executive officers suggests that executive duties do not necessarily lend themselves to measurable payments, which a bonus plan frequently presupposes. Their functions are to coordinate and direct corporate activities from a long-range and over-all point of view, rather than to stress annual profits to which bonus plans generally are attached.

Even for executives themselves, there are certain drawbacks to bonus plans. It is possible with full corporate publicity given to such payments that attempts will be made by stockholders as well as directors to associate too closely results in the form of earnings with rewards in the form of executive payments. It is readily conceivable that emphasis on such comparison might be inimical to best corporate interests. Also with high surtaxes certain executives may find the rewards of bonus plans highly illusory. A difficult problem always arises as to which executives should receive bonuses and how much they should receive. This is further complicated by the question as to whether or not executives in subsidiary companies should receive bonus payments. The chief advantage to executives, however, must not be overlooked: it gives them an opportunity for an additional share of earnings.

Finally, it is often discovered that instead of solving executive compensation problems, bonus plans may precipitate more problems. "The dangers in bonus plans,"

as one experienced executive who has had a carefully considered plan in effect for many years remarked, "are subtle, concealed, and in the future." It seems clear that the burden of proof falls on the proponents of a bonus plan, and that any decision to adopt one depends to a large extent on the specific corporate situation and upon the plan to be adopted.

What Relationship Existed between Stock Ownership and Executive Payments?

In discussions of the wide diffusion of corporate ownership, it has often been stated that if voting stock were only in a few hands, corporations would be operated in a much better way, and such problems as the payment of executives would be vastly simpler. Since among retail companies stock ownership is widely dispersed in certain instances and in others closely concentrated, it was possible to examine the question of the effect of stock ownership on the payment of executives in some detail for this group of companies. No significant differences in policies were disclosed. For example, among chain stores in which management owned less than 20% of the stock, about the same percentage of earnings was paid to executives as in those chain companies where over 50% of the voting stock was owned by management. Studies of specific companies in which large blocks of stock were in a few hands also indicated no general rule, except that certain companies adjusted executive payments more quickly to earnings than did others. Too much emphasis should not be placed on these findings, however, because of the inadequacy of the statistics examined and the limited group of companies to which they apply.

What Is the Relationship between Executive Payments and Dividends and between Dividends and Earnings?

Many treatises have been written on the rewards of management, the entrepreneur's profit, and the payment

for capital, but most of them have been based on limited statistical data. Information is now available indicating the share of earnings paid to executives and the share to stockholders. It is believed that a study of these data may well bring about important changes, both in theory and in practices.

EXHIBIT 104.—EXECUTIVE COMPENSATION AND TOTAL DIVIDENDS AS A PERCENTAGE OF EARNINGS;[1] TOTAL DIVIDENDS AS A PERCENTAGE OF BALANCE AVAILABLE FOR DIVIDENDS;[2] IN STEEL AND LARGE INDUSTRIAL COMPANIES: 1929, 1936, AND 1928–1936 COMBINED[3]
(Median figures)

Items	51 large industrial companies[4]			24 steel companies[4]		
	1929	1936	1928–1936 combined	1929	1936	1928–1936 combined
Executive compensation:						
Percentage of earnings......	2.9	3.5	4.9	5.8	6.4	8.9
Total dividends:						
Percentage of earnings......	47.5	59.2	69.0	39.4	43.7	46.1
Percentage of balance available for dividends........	55.1	68.2	84.7	46.5	53.8	93.7

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] Balance available for dividends is defined as net income after all charges including depreciation, Federal taxes, executive compensation, and interest.

[3] Figures for 1933 have been omitted because of lack of data.

[4] For detailed information regarding the medians, reference should be made to the original exhibits: for 51 large industrial companies, Exhibits 81 and 82, pp. 178 and 179; for 24 steel companies, Exhibits 66 and 67, pp. 147 and 150.

Exhibit 104 is included as an example of practices in this area, and summarizes for a group of 51 large industrial and 24 steel companies for three different periods the percentage of earnings paid to executives and to stockholders. Executives for the 51 industrial companies received in all three periods a smaller percentage of earnings than did the executives of steel companies; and stockholders of this group of industrial companies received a larger percentage of earnings than did the stockholders of the steel companies.

The spread between the two groups in the percentages paid is wide. Other studies showed similar variations.

Because of recent tax laws, the relationship between dividends and earnings (*i.e.*, the balance available for dividends) has become important. These laws implied that corporations were "plowing back" as reserves too large a portion of earnings. Total dividends as a percentage of balance available for dividends, as given in Exhibit 104, throws light on this question, as do previous analyses. In large industrial companies in 1929, dividend payments were as a rule slightly over one-half and in 1936 slightly over two-thirds of earnings. Such practices, especially if 1929 was characteristic, might be open to criticism, but what of the entire 1928–1936 period? On the average this group of companies paid out 85% and retained only 15% of earnings. Twenty-four steel corporations with earnings fluctuating erratically paid in both 1929 and 1936 around 50% but, what is much more startling, for the entire period they paid out as dividends 94% of earnings. If this is characteristic of all companies, it signifies that generally corporations were spreading out over good and bad years the distribution of their earnings as dividends—in past years not considered as unsound practice. Possibly more important, however, is the clear indication that under present conditions of rapid change and inexact accounting methods, only small percentages are being retained as reserves, and that over a period of years too little, rather than too much, is being set aside.

Should Salary Data Be Published?

Probably the real reason that Congress forced the publication of salary data was the conscious or unconscious indictment of business leaders, both by the public and by many stockholders, for having failed in their fiduciary relationships with stockholders. The question therefore arose: Are these men guilty? This was indeed a powerful reason why the law should play its usual rôle and come

to the aid of the public and stockholders by insisting that executive compensation practices and policies of publicly owned corporations be revealed. One can readily sympathize with and understand the disturbed attitude of loyal executives, uncertain as to the repercussions from the publication of salary data. It might give false impressions, and stir up considerable ill feeling within a specific company. Furthermore not all stockholders are reasonable, nor do they appreciate the real need for certain large salaries. Laws are generally made for minorities, and the law concerning the publication of salaries was no exception to this rule.

Since executive salaries have been the Pandora's box of the business world, it was only natural that the general public should expect many surprising revelations from the publication of corporate salary data. Such anticipations were generally disappointed, to the surprise of many. With publicity, however, the constructive as well as the destructive phases of salary revelations quickly became apparent. Publicity may be of much benefit to executives and corporations as well as to stockholders and the public. It forces careful study of such payments, tends to insure fair treatment, both of officers and of stockholders, and indicates the market rate for officers.[1] The destructive side is the publication of names, which emphasizes "gossip" rather than corporate policies. This is probably the most unfortunate phase of the publication of salary data. An improvement might be the revelation of corporate salary data without names; this would continue all the constructive features of such publicity without its unfortunate aspects.[2]

Can Present Executive Salaries Be Justified?

There is little doubt that executive compensation payments reached a peak in this country in 1929. Although

[1] These comments do not refer to the publication of salaries over $15,000, which serves no constructive purpose whatever.

[2] A more detailed discussion of the subject of disclosure of compensation data, written by the author, appeared in the *Christian Science Monitor*, May 4, 5, and 6, 1937.

substantial reductions occurred during the depression, by 1936 median payments again were approaching 1929 levels. Justification of these large amounts paid annually as executive salaries has been a constantly recurring problem. It has been raised by economists, business men, and ordinary citizens interested chiefly in dividend payments. Briefly the answer may be that executive payments are high because there is a real scarcity of able executives, and because American corporations, particularly those examined in this study, are large and able to make substantial payments. Justification of executive payments, therefore, may be in paying the market rate for the required man. Since men with the necessary talents are scarce, the rate is high and the spread in such payments is wide. Why such men are so scarce is a separate problem.

Fixing the market rate for executives, however, in actual practice, is most difficult. It is complicated because of the dual position held by chief executives. They themselves many times have much to do with establishing the market rate. That some executives have been paid too much and above the market rate, and that such payments cannot be justified is only too true; just as clearly, however, others have been paid too little and below the market rate. Also, no one should attempt to answer the question of how to justify executive payments without knowing the contributions made by individual executives. The inexperienced are inclined to think that any officer receiving a so-called large salary is being overpaid. He may be. But how much would it be necessary to pay his successor? And who could forecast the possible success of such a man? The problem is further complicated by personal needs, the age of the individual, tradition, and similar factors.

The question of the payment of executive officers also leads to an examination of the duties and responsibilities of executives. These are extensive, and even a casual examination of management problems suggests that overpaying *successful* executives may be difficult. Such men,

over a period of years, must possess foresight, imagination, courage, decisiveness, leadership, and other kindred virtues. These qualities are rare and command substantial reward.

In past years, risks for executives have been great, and therefore the fact that payments have been high may in many cases be justified. Today, however, practices are changing; the light of publicity is turned on corporate affairs as never before. Failures and losses will not be featured or remembered like successes and high payments. Taxes, public relations, and governmental relationships, therefore, become an important weight on the scales of executive compensation. There is considerable evidence to indicate that the public will not favor a return of the era of fabulous salaries and bonuses, which for the most part apparently has passed.

Possibly the contributions of executives may never be measurable adequately in a monetary way; executives may be assuming functions to society similar to those of doctors, teachers, scientists, and others in professional work. Such men are rewarded in other ways than merely by financial payments. Avarice, it must be remembered, is not the only motivating factor in human life. If the executive group takes on a professional status, payments may be smaller in cash, larger in other satisfactions, greatly simplified, and, incidentally, executives may have a more peaceful existence and live longer. One important reason favors such a development. A quarter of a century ago, "business was business"; *i.e.*, business men generally strove mainly for profits. Today the social implications of executive work have so changed that no longer can such men think of business chiefly as corporate profits. They must consider their decisions in terms of social well-being as well as in terms of dividends and personal financial reward. Because of these major changes, not hindsight but fumbling foresight must be used to determine the amount of executive compensation. Foresight, however, must take its bearings

from past experience. In no area does history repeat itself in precisely the same way but it teaches lessons which, if learned, may be advantageous in the solution of involved problems. It is hoped that the record of past experience furnished by these studies may assist those working with the intricate problems of executive compensation.

APPENDIX A

FORMS USED BY THE FEDERAL TRADE COMMISSION AND SECURITIES AND EXCHANGE COMMISSION

A reproduction of the form used by the Federal Trade Commission, with figures filed by one of the companies for 1929, is given below. Figures were assembled by means of these forms for the years 1928–1932 and the first nine months of 1933. Particular attention should be given to

EXHIBIT 105.—FEDERAL TRADE COMMISSION SALARY SCHEDULE[1]

Name of Company	Address	Period	Ending
omitted	*omitted*	*12 months*	*12/31/29*

Name of Officer or Director	Position	Cash Salary Paid During Year	Other Compensation Paid During Year	Total Cash and Other Compensation
Omitted	*P., D.*	*$58,250*	....	*$58,250*
"	*V.P., D.*	*58,250*	....	*58,250*
"	*V.P., Gen. Mgr., D.*	*58,250*	....	*58,250*
"	*V.P., T., D.*	*50,250*	....	*50,250*
"	*D.*	....	*$140*	*140*
"	*D.*			
"	*D.*	....	*120*	*120*
"	*D.*	....	*100*	*100*
"	*D.*			
"	*D.*			
Total		*$225,000*	*$360*	*$225,360*

Total Assets *Omitted*
Net Income "

[1] The name of the company, as well as the names of the officers and some significant figures, were omitted because of the desire of the author not to bring any one company or any group of men into prominence. Otherwise, the above material is a true copy of the returns which are on file with the Federal Trade Commission.

the column requesting data for other compensation paid during the year. Entries of less than $1,000 often were merely nominal fees to directors. When these figures were

EXHIBIT 106.—SECURITIES AND EXCHANGE COMMISSION SALARY SCHEDULE[1]
(Item 9 of Form 10K for 1935 and 1936)

9. Give the information required below in tabular form concerning the aggregate remuneration paid by the registrant and its subsidiaries, directly or indirectly, to the following persons in all of their capacities:
   (a) The name and aggregate remuneration of each person among the officers, directors and employees of the registrant receiving one of the three highest aggregate amounts of remuneration.
   (b) The aggregate remuneration of all directors of the registrant; indicate the number of such directors without naming them.
   (c) The aggregate remuneration of all officers, other than those who are directors, of the registrant: indicate the number of such officers without naming them.
   (d) The aggregate remuneration of all employees of the registrant who, respectively, received remuneration from the registrant in excess of $20,000 within the fiscal year; indicate the number of such employees without naming them.

Name, or number of persons not named	Capacities in which remuneration was received	Aggregate remuneration within registrant's fiscal year
(a) *Omitted*	*Chairman of the Board*	*$36,589.72*
"	*President and Director*	*58,250.00*
"	*Vice President and Director*	*75,000.00*
		$169,839.72
(b) *8*	*Directors*	*$225,199.84*
(c) *10*	*Officers*	*$117,354.46*
(d) *1*	*Manager*	*$21,999.72*

[1] The name of the company, as well as the names of the officers, were omitted because of the desire of the author not to bring any one company or any group of men into prominence. Otherwise, the above material is a copy of one of the returns which are on file with the Securities and Exchange Commission.

more than $1,000, the payments were considered to be bonuses paid in addition to the salaries listed in the preceding column.

A reproduction of the form used by the Securities and Exchange Commission, with figures filed by one of the

companies for 1935, is also given above. The compensation material reported to the Securities and Exchange Commission was somewhat more difficult to interpret than that submitted to the Federal Trade Commission. Not only did the questionnaires differ from those employed by the latter commission, but the forms used in 1935 and 1936 differed from those used in 1934.

Information requested by the Securities and Exchange Commission was not so explicit as that requested by the Federal Trade Commission. The Securities and Exchange Commission reports therefore had to be analyzed carefully to prevent the inclusion of highly paid non-executive employees. All of the material available for each company from both sources was examined, and the figures for the three latter years were so adjusted as to make them approximately comparable with the figures reported for the earlier years. Firms filing data with the Securities and Exchange Commission sometimes reported figures for a larger group of men than they did in response to the Federal Trade Commission questionnaire. In such cases it seemed desirable to limit the lists of officers reported in 1934–1936 to groups corresponding to those reported in earlier years. This occasionally necessitated substituting lower total compensation figures for the aggregate figures reported by the Securities and Exchange Commission.

APPENDIX B

EXECUTIVE COMPENSATION DATA REVEALED BY THE FEDERAL TRADE COMMISSION AND SECURITIES AND EXCHANGE COMMISSION: 1928–1936

Name of company (omitted)[1]

Position[1]	Dollar compensation								
	1928	1929	1930	1931	1932	1933[2]	1934	1935	1936
Chairman of the board	....	....	$50,000	$50,000	$10,000	....	....	$20,000†	$65,000
President and director	$50,000	$50,000	50,000	75,000	60,000	$60,000	$60,000	65,000	60,000
Vice president and director	6,000 45,572‡	6,000 46,043‡	6,000 32,924‡	50,000	40,000	40,000	40,000	40,000	
Vice president and director	6,000	6,000§							
Vice president	6,000	6,000	30,000	50,000	40,000	40,000	40,000	50,000	‖
Vice president	6,000	6,000	25,000	35,000	28,000				
Vice president	6,000	6,000	25,000	25,000	20,000	20,000			
Secretary and director	6,000	6,000							
Treasurer and director	6,000	6,000	25,000¶	40,000	32,000	32,000	32,000		
Director	....	....	....	....	....	....	....	....	60,000
Total executive compensation[3]	$137,572	$138,043	$243,924	$325,000	$230,000	$222,000	$260,000†	$290,676†	$343,333†

† Estimated.
‡ Apparently a bonus.
§ Made president in 1930.
‖ President and director in 1936.
¶ Also secretary after 1929.

[1] The above figures have been taken from Federal Trade Commission (1928–1933) and Securities and Exchange Commission (1934–1936) reports, omitting the names of the officers as well as the name of the company, in order not to bring any one company or any group of men into prominence. In some cases more than one man has held the position throughout the period.

[2] Annual cash salary in effect in September was requested by the commission; this does not necessarily represent total remuneration for the year.

[3] For the years 1934, 1935, and 1936, compensation of officers other than those listed is included in the total.

APPENDIX C

COMPENSATION OF PRESIDENTS OF 100 INDUSTRIAL COMPANIES: 1929, 1932, AND 1936

(Ranked according to compensation in 1929)

	1929	1932	1936		1929	1932	1936
(1)	$10,000	$24,450	$30,000	(51)	$71,799	$29,160	$54,451
(2)	12,000	10,309	*	(52)	73,333	63,750	75,000
(3)	12,160	10,980	25,190	(53)	75,000	10,000	24,000
(4)	15,000†	10,000	34,257	(54)	75,000	36,000	*
(5)	15,000	14,187	*	(55)	75,000	36,333	30,000
(6)	17,300	17,300	14,350	(56)	75,000	54,021	*
(7)	19,999	15,270	15,100	(57)	75,000	67,500	*
(8)	20,425	13,613	*	(58)	75,000	82,417	75,735
(9)	24,000	19,411	10,312	(59)	75,120	60,970	63,857
(10)	24,386	20,972	25,200	(60)	76,455	49,121	120,763
(11)	25,000	17,303	*	(61)	78,050	43,050	50,000
(12)	25,000	49,050	*	(62)	80,000	104,054	*
(13)	25,080	21,621	24,246	(63)	83,505	63,930	55,527
(14)	25,480	24,836	40,761	(64)	84,980	10,400	*
(15)	26,535	24,970	25,280	(65)	85,700	50,890	71,197
(16)	27,114	16,200	27,000	(66)	88,793	14,565	172,411
(17)	28,944	16,672	15,000	(67)	95,000	17,999	24,166
(18)	30,000	28,162	24,000	(68)	96,690	89,970	*
(19)	32,340	44,551	38,250	(69)	100,000	48,600	65,000
(20)	35,000	32,083	32,156	(70)	100,000	150,000	150,100
(21)	35,000	36,140	*	(71)	100,599	84,990	*
(22)	35,000	50,000	50,000	(72)	101,150	33,080	45,520
(23)	36,000	14,000	12,000	(73)	101,820	85,150	58,500
(24)	36,100	26,000	15,000	(74)	102,850	100,291	85,833
(25)	38,333	18,500	26,000	(75)	104,090	50,000	75,000
(26)	39,729	36,000†	50,448	(76)	108,261	91,100	*
(27)	39,999	24,111	*	(77)	108,450	57,530	64,367
(28)	40,000	11,250	14,000	(78)	120,000	60,000	*
(29)	40,000	40,000	25,119	(79)	125,000	73,295	122,500
(30)	40,000	41,666	42,720	(80)	125,000	90,000	70,000
(31)	40,200	26,383	27,500	(81)	125,000	97,576	76,800
(32)	40,280	25,180	*	(82)	126,363	107,550	125,260
(33)	42,262	39,288	50,200	(83)	138,624	33,600	90,000
(34)	44,525	18,936	31,500	(84)	139,540	94,865	75,920
(35)	45,120	55,130	55,180	(85)	140,161	67,466	78,935
(36)	48,661	44,800	*	(86)	145,004	45,968	90,686
(37)	50,000	30,567	44,441	(87)	157,587	29,998	25,000
(38)	50,000	42,000	50,000	(88)	160,700	63,200‡	95,000
(39)	50,000	50,000†	*	(89)	180,884	127,600	155,473
(40)	51,060	24,314	36,554	(90)	200,000	100,250	64,100
(41)	52,796	30,539	*	(91)	206,324	70,695	*
(42)	55,000	47,500	28,724	(92)	254,705	42,375	174,926
(43)	60,000	21,102	29,416	(93)	256,940	63,458	70,300
(44)	60,000	30,933	41,666	(94)	260,061	156,638	130,310
(45)	64,021	52,382	84,485	(95)	270,671	149,059	*
(46)	64,160	39,820	*	(96)	275,096	168,500	75,000
(47)	65,000	39,843	62,500	(97)	318,106	454,015	343,237
(48)	65,982	42,250	38,010	(98)	412,860	66,848	83,104
(49)	67,460	37,310	72,425	(99)	605,613	825,607	246,173
(50)	67,657	33,600	42,990	(100)	1,635,753	180,000	180,000
Number of companies					100	100	77
Median compensation					$69,728	$41,833	$50,200

* Data not available.

† Estimated annual rate based on amounts reported for a period not equal to an exact year.

‡ In 1932 this company had, in addition to a president, an officer (formerly a president) with the title "chief executive" who received $108,350.

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INDEX

See also Contents, p. xiii; List of Exhibits, p. xvii; Bibliography, p. 263.

A

B

U

V

W

Y